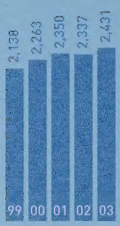
GazMétro
life in blue

Z MÉTRO FLYING ITS COLOR **2003 ANNUAL REPORT**

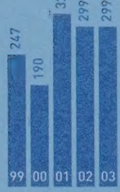
HIGHLIGHTS

TOTAL ASSETS
(IN MILLIONS OF DOLLARS)



CAPITAL EXPENDITURES AND DEFERRED CHARGES
(IN MILLIONS OF DOLLARS)

CASH FLOWS FROM OPERATIONS
(IN MILLIONS OF DOLLARS)



PARTNERS' INCOME
(IN MILLIONS OF DOLLARS)

Years ended September 30, (in millions of dollars, except for unit data which is in dollars)

	2003	2002
CONSOLIDATED INCOME AND CASH FLOWS		
Revenues	$1,757	$1,608
Gross margin	$ 569	$ 556
Earnings before interest, taxes, depreciation and amortization(1)	$ 385	$ 381
Partners' income	$ 153	$ 155
Cash flows from operating activities (before working capital)	$ 349	$ 286
Capital expenditures and deferred charges	$ 235	$ 107
Partners' income per unit		
Basic	$ 1.39	$ 1.40
Diluted	$ 1.39	$ 1.40
Distributions paid per unit	$ 1.34	$ 1.28
Weighted average number of units outstanding (in millions)	110.5	110.5
Interest coverage on long-term debt over a period of 12 months (times)	2.88	2.85
CONSOLIDATED NORMALIZED VOLUMES OF NATURAL GAS(2) (in millions of cubic metres)		
MARKETS		
Industrial	3,071	3,266
Commercial	1,905	1,916
Residential	741	739
Total	5,717	5,921
OTHER INFORMATION		
Authorized rate of return on deemed common equity (Quebec distribution activity)	10.34%	9.69%
Credit ratings		
Long-term bonds (S&P/DBRS)	A/A	A/A
Commercial paper (S&P/DBRS)	A-1 (low) / R-1 (low)	A-1 (low) / R-1 (low)
Stability of distributions (S&P/DBRS)	SR-1/STA-1 (low)	–
Market prices on Toronto Stock Exchange (in dollars):		
High	$20.86	$18.32
Low	$17.50	$16.28
Close	$20.28	$18.10
Public ownership in Partnership	24.9%	22.6%
CONSOLIDATED BALANCE SHEETS		
Total assets	$2,431	$2,337
Long-term debt, including current portion	$1,289	$1,241
Partners' equity	$ 876	$ 823
Partners' equity per unit	$ 7.69	$ 7.45
Net tangible asset coverage on total long-term debt, including current portion (times)	1.66	1.64

(1) Income taxes presented with operating and maintenance expenses in the income statement.
(2) Estimated volumes at normal temperatures in Quebec only.

Gaz Métro is seeing life in blue!

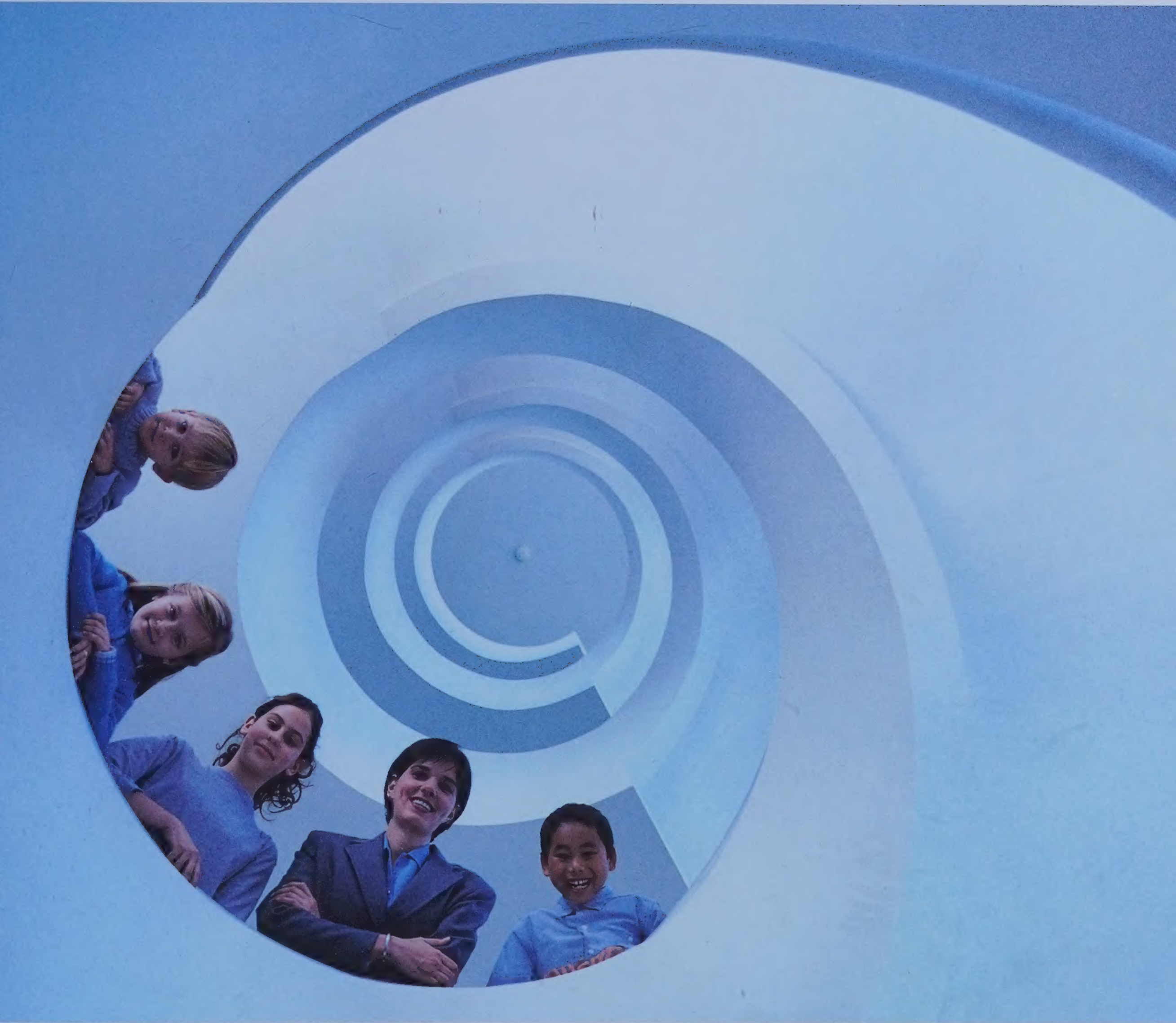
With its lively new warm image, Gaz Métro is modernizing its mission as a distributor of natural gas and getting closer to its customers, partners, investors and employees. By "living in blue", Gaz Métro is also strengthening its position in the fast-growing residential sector.

life in blue is sure to become a synonym for excellence in efficiency, advice, reliability and comfort in the minds and hearts of Quebecers.

with confidence

BECAUSE NOTHING IS MORE IMPORTANT THAN SECURITY AND PEACE OF MIND.

An architect by training, Marie-Claude Lefebvre is responsible for physical facilities and for construction and renovation projects. "At Sainte Justine's, we use natural gas in four applications: for heating, in the laundry, the kitchens and laboratories. Regarding these services, which are essential to the well-being of the children who stay here, we have to be absolutely sure about the efficiency of our plant. Our collaboration with Gaz Métro met our criteria of excellence, reliability and performance. It is very reassuring to be able to count on the continuous supply of natural gas to guarantee these essential services for our young patients."



Marie-Claude Lefebvre, Coordinator, Technical Services and Construction, Sainte-Justine Hospital

GAZ MÉTRO AND PRATT & WHITNEY CANADA

Pierre Therriault, Energy and Facilities Services, Pratt & Whitney Canada

with commitment

BECAUSE YOUR NEEDS CHANGE—AND THEY WILL CHANGE AGAIN AND AGAIN.

Pratt & Whitney Canada shares a tradition of excellence with Gaz Métro. When it comes to manufacturing aircraft engines, choosing natural gas meant a guarantee of efficiency and performance, as well as compliance with its ISO 14001 certification standards.

"Natural gas represents 43% of the energy used by Pratt & Whitney Canada in all its plants in Quebec. Whether we're talking about its efficiency and rapidity of direct ambient heating, or the cleanliness of the energy in combustion processes, natural gas really is the best solution. We can also count on Gaz Métro's expertise in energy efficiency to maintain the high level of performance."

with conviction

BECAUSE NO OTHER ENERGY GIVES SUCH A FEELING OF COMFORT.

"The quality of customer service offered by the Gaz Métro team has been exceptional since we first began working together in 1997, after the ice storm. Ever since then, their personalized approach and sound professionalism have never faltered. Group LSR and Gaz Métro have become a team with no shortage of joint projects to work on.

"Speaking for myself, my home runs on natural gas. The reliability of natural gas simplifies my life, giving me more time to just enjoy it! The way it quickly warms my home, its gentle heat, its efficiency in the kitchen, plus the ease of lighting a fire—natural gas is the ideal solution, the energy of choice for "total comfort".

"In the bustle of daily life, my time is precious. If I can save a little bit of that time, what I end up gaining is more peace of mind. And our clients understand that, too."

Annie Lemieux, Eng., Vice-President, Real Estate Development, Group LSR

MISSION, OBJECTIVE AND THE PARTNERSHIP

MISSION

Gaz Métro transports and distributes natural gas in Quebec and in the northeastern portion of North America. It also sells goods and services ancillary to its main activity. It makes use of its know-how to pursue activities that are related or similar to its core business.

OBJECTIVE

Gaz Métro's financial objective is to provide its Partners with a stable, predictable return, accompanied by growth in value over the years. From a business perspective, the Partnership intends to provide its customers with high-quality energy services at the lowest possible cost, through policies and programs aimed at motivating its employees and business partners.

THE PARTNERSHIP

Gaz Métro's core business is the distribution of natural gas. The Partnership delivers approximately 97% of the natural gas consumed in Quebec. Vermont Gas Systems, Inc., a wholly-owned subsidiary, is the sole gas distributor in Vermont.

Gaz Métro also owns significant financial interests in two natural gas transportation companies, including a 50% interest in TQM PipeLine and Company, Limited Partnership, which operates a gas pipeline that connects upstream with that of TransCanada PipeLines and downstream with that of Portland Natural Gas Transmission System ("PNGTS"). The pipeline owned by PNGTS, in which Gaz Métro holds a 26.9% interest, originates at the Quebec border and extends to the suburbs of Boston. In addition, a wholly-owned subsidiary of the Partnership operates two gas pipelines that cross the Ontario border to supply Gaz Métro's distribution system in northwestern Quebec.

In addition to these activities and major ownership interests, the Partnership sells goods and services,through subsidiaries and affiliates, in the energy related business, and in water, wastewater and fibre optics networks.

OWNERSHIP & SECTORS OF ACTIVITY

GMi
Gaz Metro Inc.

GMLP
Gaz Métro Limited Partnership

TQM
TQM PipeLine and Company, Limited Partnership

PNGTS
Portland Natural Gas Transmission System

(1) On October 21, 2003.

BOARD OF DIRECTORS

FROM LEFT TO RIGHT: J. RICHARD BIRD, DIDIER HOLLEAUX, ROBERT TESSIER, NICOLLE FORGET, EMMANUEL HEDDE, LOUIS P. GIGNAC, RÉAL SUREAU, PHILIPPE HOCHART, ROBERT PARIZEAU, JEAN-GUY DESJARDINS, JACQUES LAURENT, STEPHEN J.J. LETWIN, GASTON LONGVAL, THIERRY VANDAL

MR. J. RICHARD BIRD

Before joining Enbridge in 1995, Mr. Bird held senior finance and corporate development positions with Gulf Canada Resources and GW Utilities. He is presently Group Vice President, Transportation North for Enbridge. He joined Enbridge as Vice President and Treasurer following which he was appointed Senior Vice President, Corporate Planning and Development.

Mr. Bird is a director for a number of companies, including Alliance Pipeline, Enbridge Income Fund and Enbridge Energy Partners.

Director since August 19, 1998
Number of units held (1) –
Attendance at meetings (2) Board: 5/8

MR. JEAN-GUY DESJARDINS

Mr. Desjardins is the President and Chief Executive Officer of Fiera Capital, which he founded in 2002. He was also the cofounder and main shareholder of TAL Global Asset Management Inc. until it was taken over by a financial institution. Mr. Desjardins was the President and Chief Executive Officer of TAL from 1987 to 2001. He is a member of a number of associations and boards of directors, including the boards of the Laurentian Bank of Canada and the École des hautes études commerciales.

Director since August 22, 2002
Number of units held (1) 55,000
Attendance at meetings (2)
Board: 3/8 – Committees: 5/7

MRS. NICOLLE FORGET

A graduate of the Université du Québec à Montréal, the École des hautes études commerciales and the Université de Montréal, Mrs. Forget is a member of the Quebec Bar. She has been a member of a number of administrative tribunals and boards of directors, including the boards of Hydro-Québec and the Economic Council of Canada. She is a member of, among others, the board of directors of the Jean Coutu Group and F Capital.

Director since January 30, 1997
Number of units held (1) 2,000
Attendance at meetings (2)
Board: 8/8 – Committees: 10/10

MR. LOUIS P. GIGNAC

Mr. Gignac has been the President and Chief Executive Officer of Cambior Inc. since 1986. Cambior produces gold and niobium in Quebec and South America. The Company has approximately 2,800 employees. Mr. Gignac, who holds a doctorate in mining engineering, is also a director of Domtar and The Mining Association of Canada.

Director since September 25, 1990
Number of units held (1) 1,000
Attendance at meetings (2)
Board: 6/8 – Committees: 8/9

MR. EMMANUEL HEDDE

Mr. Hedde is Vice President, Projects and Business Development Division for Gaz de France. He held management positions in a company in the mechanical industry and then, for 13 years, in a finance firm. He joined the Subsidiaries and Financial Interests Division of Gaz de France in 1993. From 2000 to 2003, he was the Executive Vice President of the Finance Division.

Director since May 23, 2002
Number of units held (1) –
Attendance at meetings (2) Board: 6/8

MR. PHILIPPE HOCHART

Presently Gaz de France's Representative for North America, Mr. Hochart has been with the organization since 1980 where he has held executive positions in the distribution, rate setting, gas supply, transportation, finance and treasury sectors, as well as natural gas trading.

Director since February 6, 2002
Number of units held (1) –
Attendance at meetings (2)
Board: 8/8 – Committee: 3/3

MR. DIDIER HOLLEAUX

After a career with the French government, which culminated as Chief of Staff for the Minister of Energy in 1992-93, Mr. Holleaux joined Gaz de France in 1993 where he has held various positions in the Transmission, Exploration-Production and Distribution divisions. He is presently Operating Vice President, Distribution Branch EDF GDF Services.

Director since February 21, 2003
Number of units held (1) –
Attendance at meetings (2) Board: 5/5

MR. JACQUES LAURENT

Mr. Laurent is a partner with Borden Ladner Gervais, LLP. From 2001 to 2003, he was Chairman of the Board of Hydro-Québec. He is also a director of Domtar, the St. Lawrence Cement Group and Gaumont Films Canada, Chairman of the Board of the Orchestre symphonique de Montréal and a Governor of the National Theatre School of Canada.

Director and Vice Chairman of the Board since
February 6, 2002
Number of units held (1) 1,000
Attendance at meetings (2)
Board: 7/8 – Committee: 7/7

MR. STEPHEN J.J. LETWIN

Before joining Enbridge, Mr. Letwin was, among others, Senior Vice President and Chief Financial Officer with TransCanada PipeLines and, prior to that, President and Chief Financial Officer of Numac Oil & Gas. In 1999, he was appointed President and Chief Operating Officer of Energy Services Enbridge until 2000 when he was appointed Group Vice President, Distribution and Services of Enbridge Inc.

Director since February 7, 2001
Number of units held (1) –
Attendance at meetings (2)
Board: 5/8 – Committee: 3/6

MR. GASTON LONGVAL

Mr. LongVal retired from Gaz Métro in 1996 after 36 years of service. At the time of his retirement, he was Assistant to the President and Vice President, Human Resources, positions he held since 1988. With a technological education in applied sciences, and later in industrial relations, he was also Vice President, Human Resources from 1977 to 1982, following which he was Vice President, Operations from 1982 to 1987.

Director since February 6, 2002
Number of units held (1) 2,000
Attendance at meetings (2)
Board: 8/8 – Committee: 5/5

MR. ROBERT PARIZEAU

For the past few years, following 20 years at the head of Sodarcan Inc, an insurance, reinsurance and actuarial consulting company, Mr. Parizeau has been a corporate director. He is the Chairman of the Board of AON Parizeau and a director of, among others, National Bank Financial, Power Corporation, the Canam Manac Group and Van Houtte.

Director since September 25, 1990
And Chairman of the Board since January 30, 1997
Number of units held (1) 10,000
Attendance at meetings (2)
Board: 8/8 – Committees: 21/21

MR. RÉAL SUREAU

Mr. Sureau, an accountant by profession, is President of Gestion Sureau Limitée and, since 1995, Vice President of the Patented Medicine Prices Review Board. Over the course of his career, positions held by Mr. Sureau include Vice President, Finance with Forex and the Canam Manac Group. He was also President of the Ordre des comptables agréés du Québec in 1995-1996. He sits on the boards of directors of TAFISA Canada and Company Ltd. and Institut de réadaptation de Montréal.

Director since January 26, 1995
(was also a Director from 1987 to 1991)
Number of units held (1) 5,000
Attendance at meetings (2)
Board: 8/8 – Committees: 13/14

MR. ROBERT TESSIER

Mr. Tessier has been employed as the President and Chief Executive Officer of Gaz Métro since 1997. He started his career in the public sector where, among others, he was the Vice Rector of the Université du Québec, Secretary of the Conseil du Trésor du Québec, Deputy Minister in the Ministère de l'Énergie et des Ressources, and Executive Vice President of La Société générale de financement. From 1991 to 1992, he was President and Chief Executive Officer of MIL Group and, from 1992 to 1996, of Alstom Canada.

Mr. Tessier is a director of AXA Canada, CGI and Investors Group Corporate Class Inc. and chairs the board of the Montreal Heart Institute.

Director since January 30, 1997
Number of units held (1) 13,400
Attendance at meetings (2) Board: 8/8

MR. THIERRY VANDAL

Mr. Vandal is President, Hydro-Québec Production and Hydro-Québec Pétrole et gaz. His career spans 20 years in the energy industry, initially in the oil sector and then with Gaz Métro for five years. He has been with Hydro-Québec since 1996, where he started as Vice President responsible for strategic planning and business development.

Director since October 1, 2003
Number of units held (1) –
Attendance at meetings (2) Board: 0/0

(1) A Director who does not personnally receive the director's remuneration does not have to own Partnership's units. Otherwise, the minimum is 1,000 units and will be 2,000 in 2004.
(2) Meetings during fiscal 2003.

The Partnership has given itself a new name, a new logo, a new corporate signature. Gaz Métro, a lighter blue flame, *life in blue*, individual items that together reflect a renewed vision and increased vigour.

These changes are not cosmetic. They reflect a Partnership that has profoundly transformed itself in recent years and that felt the need to see its corporate image portray the new reality. In making these changes, we wanted to signal the growing appeal of natural gas solutions, both in the traditional industrial, commercial and institutional markets and, more and more, in the residential market.

It was this image of a modernized Gaz Métro that was the object of our largest-ever publicity campaign, launched in September 2003. "The outlook for more widespread use of natural gas in Quebec is promising," we said in last year's Annual Report, "and the Partnership intends to intensify its efforts to increase its market share." Intensified efforts indeed—three advertisements followed one another over a period of a few weeks on major television stations and on specialized channels during selected programs based on audience ratings and target group. Simple, yet dynamic and surprising, the ads aroused real enthusiasm among the general public. The objective appears to have been attained, namely, a corporate image that signifies confidence, comfort and pleasure. The Partnership's reputation increased almost instantaneously and should increase further since the campaign will resume in January 2004.

DISCUSSION OF RESULTS FOR THE 2003 FISCAL YEAR

In 2002, it will be recalled, the Partnership registered record income of $1.40 per unit. This was a 9.5% increase over the $1.28 per unit reported in 2001, which was about the average of earlier years.

You may also recall that in our outlook for 2003, we mentioned the negative impact of the further 2% reduction in the corporate tax rate, which had already reduced the Partners' income by $4.0 million in 2002. This negative impact is because the Partnership's distribution activities in Quebec and TransQuebec & Maritimes Pipeline are authorized by their respective regulatory bodies to recover the current income tax they would have had to pay were they incorporated companies rather than limited partnerships, where the income tax burden is borne by each Partner. Were it not for this reduction in the corporate tax rate, the Partnership would have ended the year with $0.04 more in income per unit than last year. As it is, we are ending the year with $0.01 less, with Partners' income of $153.3 million, or $1.39 per unit.

Following is a summary of the major components of the 2003 results which, given the factor outside our control described above, constitute a solid performance:

- In the natural gas distribution sector, 2003 income would have been slightly above that for 2002 were it not for the aforementioned unfavourable impact of $4.2 million attributable to the reduction in federal income tax. At $138.0 million in 2003, income is precisely $4.1 million lower than in 2002.

In 2003, despite a more difficult competitive situation due to the higher price of natural gas, the incentive return was $8.5 million, of which $4.1 million came from productivity gains and $4.4 million from overearnings. Again this year, the 9.89% base rate of return authorized by the *Régie de l'énergie* was exceeded, this time by 1.02%.

The number of natural gas customers served in Quebec and Vermont in 2003 totaled 188,716, a slight increase over 2002. Volumes (normalized for temperature) were 3.4% lower, at 5,717 million cubic metres. Almost all of this reduction is attributable to interruptible service in the industrial market, where natural gas was in an unfavourable competitive position compared with fuel oil. In the residential and commercial markets, where a combination of colder than normal temperatures and the relatively high price of energy affected energy consumption patterns, normalized sales volumes were down by 0.3%, from 2,655 to 2,646 cubic metres.

The 2003 fiscal year was notable for the development of new sales in Quebec. More than 6,000 new customers accepted proposals over the course of the year and will gradually be served with natural gas. Residential customers number 4,250 of that total, a number that has more than tripled in four years.

- In the natural gas transportation sector, the $3.8 million increase in income substantially offset the impact of the reduction in the income tax rate on income from distribution activities. This increase brought income to $16.6 million, and includes, for the first time in 2003, the recognition of the pro-rata share of earnings generated by Portland Natural Gas Transmission System (PNGTS). This share had not been recorded in prior years because of the uncertainty regarding the rate increase filed by PNGTS. Approval was obtained from the U.S. regulatory authority, which also recognized the actual construction costs of the pipeline in the rate base.

  The new PNGTS rates were a factor in the decision to seize the opportunity to increase our ownership interest in this gas pipeline when one of the partner's interest became available. On September 30, 2003, our interest increased from 20.7% to 26.9%. We will return to PNGTS under the heading "Recent events and outlook for the 2004 fiscal year."

- Despite significant progress in some areas of the Energy Services and Other sector, the sector as a whole did not contribute to Partners' income in 2003. Some activities were discontinued and non-regulated activities placed under new leadership last August.

  Climatisation et chauffage urbain de Montréal had a very good year in 2003. Groupe Aqua-Rehab also recorded strong growth in sales, since upgrading drinking and waste water systems is a concern for many municipalities. As for Cable VDN, in which Gaz Métro has a 20.6% interest, its fibre-optic network in the Montréal region is attracting more and more customers among heavy users and suppliers of telecommunications services.

IMPACTS OF THE RESULTS OF THE FISCAL YEAR ON THE PARTNERS

Distributions to Partners in 2003 totaled $148.0 million, or $1.34 per unit. Distributions per unit, which were up by $0.06, certainly had a favourable impact on the unit price, which rose 12% from $18.10 on September 30, 2002 to $20.28 on September 30 last. The total return, that is, capital gain plus income distributions, was 20.2%.

The positive evolution of the Partnership's results in recent years allowed us to issue $70 million in units on September 30, followed on October 21 by an additional $10 million tranche, both under favourable conditions. All evidence shows that the issue at $20.30 was well received, since the unit reached a new high of $21.00 at the close on November 14.

RECENT EVENTS AND OUTLOOK FOR THE 2004 FISCAL YEAR

On November 17, 2003, Gaz Métro informed El Paso, a partner in PNGTS, that it would exercise its right to acquire El Paso's interest in PNGTS. In consideration of a sum of some US$19.9 million, Gaz Métro's interest in PNGTS will increase from 26.9% to 38.3%. TransCanada PipeLines, which had offered to buy all El Paso's interest, will now hold 61.7% of PNGTS.

Gaz Métro recently entered into a partnering arrangement to pursue technical and economic pre-feasibility studies for a liquefied natural gas (LNG) terminal downstream from Quebec City to receive LNG from overseas. Gaz Métro and its partners feel that the LNG would be an attractive complement to the existing supply from Western Canada, particularly since the East Coast reserves cannot be developed as quickly as expected. The LNG would be transformed into a gaseous state in the terminal and moved by pipeline to markets. Gaz Métro is aiming for a 2008 put-in-service date.

The distribution of natural gas still remains the activity that merits the most attention, since the bulk of Partners' income comes from distribution. In Quebec, the *Régie de l'énergie* has authorized a rate of return, on deemed equity of 9.45% for fiscal 2004, compared with 9.89% for 2003. This reduction results from the application of an automatic adjustment formula based on an index. On the other hand, the incentive return built into the rates as a productivity gain is 1.51% versus 0.45% in 2003.

The performance incentive mechanism in effect since October 2000 has been reviewed by the interested parties. A unanimous agreement was reached on November 5, 2003 to extend the mechanism up to and including fiscal 2009, with adjustments that do not affect the initial concept. This agreement, which is subject to approval by the *Régie*, reflects the harmonious and transparent relations Gaz Métro maintains with representatives from customer associations and environmental groups.

A further 2% reduction in the corporate tax rate will have an impact in the order of $4.0 million on Partners' income in 2004. Despite that, and given the positive effect of items like the increased ownership interest in PNGTS, the Board of Directors announced that the quarterly distribution of $0.34 per unit has been maintained.

MANAGEMENT COMMITTEE

PIERRE DESPARS
Vice President
Finance and
Corporate Affairs

SERGE RÉGNIER
Vice President
Human Resources,
Quality and Internal
Communications

RENÉ BÉDARD
Vice President
Legal Affairs and
Corporate Secretary

ROBERT TESSIER
President and Chief
Executive Officer

SOPHIE BROCHU
Vice President
Customer and Gas Supply

JACQUES CHARRON
Vice President
Operations

LUC SICOTTE
Vice President
Strategic Planning and
President of
Gaz Métropolitain Plus

OUR THANKS TO EMPLOYEES

On behalf of the Board of Directors, we would like to thank all our employees for the great attitude they have shown again this year in the face of the constant challenge of striving for excellence. After having contributed to the design of an integrated management information system, they are currently involved in the consolidation of the system so as to reap the maximum possible benefits. Our blue-collar employees are completing their multi-role versatility training, white-collar employees are learning to live with an overhauled collective agreement, and all employees attended a two-day training course to learn about the attitudes expected in a successful organization, one that listens to its customers. These special activities took place in parallel with sustained improvement in customer service, an increase in the number of new customers, and strict controls over operating expenses. Clearly, our employees do not shrink from challenges, since the rating of their satisfaction with the organizational climate improved by 26% between 2001 and 2003, according to the latest survey. Once again, on behalf of the Board, thank you.

CHANGES TO THE BOARD OF DIRECTORS

Two changes have occurred in the composition of the Board of Directors since last year: Didier Holleaux of Gaz de France replaced Michel Maruenda, and Thierry Vandal of Hydro-Québec replaced Michel Gourdeau. The Board thanks MM. Maruenda and Gourdeau for the expertise they contributed.

NAME CHANGES

On November 18, 2003, the name Gaz Métropolitain and Company, Limited Partnership was changed to Gaz Métro Limited Partnership. The name of the General Partner was also changed to Gaz Métro inc.

Gaz Métro inc.
in its capacity as General Partner
November 19, 2003

ROBERT PARIZEAU
Chairman of the Board

ROBERT TESSIER
President and Chief Executive Officer

The Report to Partners, as well as Management's Discussion and Analysis, include information specific to the 2003 fiscal year. Over and above these results, Gaz Métro has been active on several fronts during the year, as the following pages illustrate.

AN EXCEPTIONAL YEAR FOR GAZ MÉTRO

The appeal of natural gas just grows and grows! As proof, 6,300 new customers in the residential and commercial sectors asked to be connected to the natural gas system this year, including 4,250 homes. The year 2003 will go down in the annals of the Partnership as one of the record years for new sales.

COASTAL PETROCHEMICALS HOOKS UP TO GAZ MÉTRO

Gaz Métro is asserting its presence more than ever in the relaunch of petrochemicals in Montreal East. A large contract was signed again this year to supply natural gas to a new customer, Coastal Petrochemicals. Its new plant will consume 102 million cubic metres per year in the production of paraxylene, a component used in the manufacture of plastic products, which will be distributed on the domestic and U.S. markets.

ZOOM CLIENT: INNOVATION AND EXCELLENCE RECOGNIZED

The *Zoom Client* program has been awarded the "Best CRM Solutions for C&I" prize by the Energy Planning Network in the U.S. Gaz Métro was chosen from among several North American, European and Australian energy distributors. The prize recognizes the innovative character and excellence of Gaz Métro's marketing practices with its business customers.

Based on an information exchange, *Zoom Client* is a marketing program aimed at getting closer to customers in the commercial and industrial sectors. These customers are offered a wide range of services, including a specialized information bulletin, automatic cyberaccount registration, meetings with specialists, a summary analysis of the performance of their building, as well as various other promotions. By understanding this clientele better, Gaz Métro can target proposals, thus increasing customer satisfaction and building loyalty.

QUEBEC CITY IN GAZ MÉTRO'S SIGHTS

After a remarkable breakthrough in the residential market in the Montréal area—more than 10,000 units in five years—Gaz Métro has now set its sights on the Quebec City area. In one strategic move, the Partnership became a major partner in the *Maison familiale Expo Québec* project run by the *Fondation Maurice Tanguay*. The house, built on the site of Expo Québec and equipped from top to bottom with natural gas appliances, has seen some 60,000 visitors. In another move, Gaz Métro struck a partnership with *Le Domaine Les Sources* in Sainte-Foy, which will help position natural gas as the energy of choice for new home construction and demystify its multiple applications with potential customers in the Quebec City region.

GAZ MÉTRO INCREASES ITS INTEREST IN PNGTS

On September 30, 2003, Gaz Métro purchased shares that DTE Energy held in Portland Natural Gas Transmission System, a gas pipeline linking the TransQuebec & Maritimes system to the Boston area. For Gaz Métro, the transaction is worth about US$11 million and it brings its interest in PNGTS from 20.7% to 26.9%.

SUPPLY DIVERSIFICATION—AN LNG TERMINAL PROJECT

Gaz Métro, with some partners, is analyzing the possibility of building a liquefied natural gas (LNG) terminal in Quebec in order to diversify natural gas supplies. LNG could be transported by carrier from producing countries and vaporized in facilities at the terminal before being injected into a pipeline to be built to connect with existing infrastructures. The terminal could be operational in 2008.

The appeal of natural gas just grows and grows. In 2003, 6,300 new customers in Quebec asked to be served by Gaz Métro. Another record year!

MAJOR SYSTEM EXTENSION PROJECTS

Gaz Métro held three "open door" events to inform the general public and local stakeholders about two major projects to extend its natural gas system: a river crossing pipeline to supply a cogeneration plant in Bécancour, and a new pipeline in eastern Montréal. These consultations made it possible to gather comments from local people and to respond to their questions. A section on major projects has now been added to the Partnership's Internet site.

GAZ MÉTRO LIMITS PRICE SCHOCKS

Several factors have led to the increase in the cost of natural gas in recent years, and especially to its volatility. Thanks to the method used to establish the price of system gas, along with recourse to financial derivatives, the price of system gas during the 2003 fiscal year did not exceed $7.20/GJ, even though the market saw spikes above $13/GJ.

At the Partnership's request, the *Régie de l'énergie* has approved the introduction of a new service that will allow customers who consume between 7,500 m^3 and 1,168,000 m^3 a year to have easier access to a fixed price for their natural gas. Some customers have already shown an interest in the service, which will be available in the coming months. In 2001, the *Régie de l'énergie* turned down a request from the Partnership to offer system gas at a fixed price.

RATES THAT REFLECT PRODUCTIVITY GAINS

As part of the review of its rates for 2004, Gaz Métro came to an almost unanimous agreement with all stakeholders. Presented to the *Régie de l'énergie* in June 2003, the approved agreement is effective October 1, 2003. The rate increases, which are below inflation, reflect the productivity gains achieved since the performance incentive mechanism came into effect in October 2000. That mechanism, it will be recalled, is a new regulatory model that encourages Gaz Métro to achieve productivity gains, measured by comparing the evolution of rates with inflation.

The incentive mechanism now in effect originally covered the period from October 1, 2000 to September 30, 2005. However, there was provision for an evaluation in 2003, so that any needed modifications could be incorporated in order to extend the mechanism beyond September 30, 2005. This evaluation and the negotiations that followed ended in unanimous agreement. For the Partners, the key aspects of the agreement are:

- 5-year term, starting October 1, 2004
- Increase in productivity factor from 0.3% to 0.5%
- Reduction in percentage retained by Gaz Métro from 52.5% to 50% for productivity gains projected at the beginning of the year, and from 33 ⅓% to 25% for additional gains reported at the end of the year.

SAPHIR PROJECT—CONSOLIDATION TIME

After the introduction of SAP software in 2000, which prompted the integration of all of our administrative activities, followed in 2002 by the functionalities associated with the system maintenance module, Gaz Métro this year completed the implementation of Phase II of the integrated management information system (Saphir project).

Phase II included modules supporting metering activities, customer acquisition, billings, credit and recoveries, a service for industrial customers, as well as a system for dispatching work orders. After two years of work and an investment of $50 million, the time is ripe for consolidating all these development efforts in order to optimize the total system's efficiency. In a little over 30 months, the Saphir project will have facilitated the integration and replacement of some 40 information systems developed in the past 20 years and to review all our business processes.

The Energy Planning Network in the U.S has awarded its "Best CRM Solution for C&I" prize to the Zoom Client program

Météo Climat

NEW COLLECTIVE AGREEMENT FOR WHITE-COLLAR EMPLOYEES

On September 11, 2003, Gaz Métro signed the renewal of the collective agreement with white-collar employees, represented by the *Fédération des travailleurs et travailleuses du Québec*. The productivity gains and operational flexibility will enable the Partnership to introduce a four-day workweek for these employees in January 2005.

Following the renewal in May 2002 of the collective agreement with employees represented by the *Confédération des syndicats nationaux*, Gaz Métro put significant effort into training these blue-collar employees in order to implement the multi-role versatility principles negotiated when the agreement was renewed. These employees will have a four-day workweek beginning in January 2004.

PHIL TRAINING—A CONSENSUS-BUILDING CONCEPT

All Gaz Métro employees have received PHIL training, a multimedia training designed to establish a common vision of the Partnership's challenges and to show everyone how they can contribute to the achievement of organizational objectives. Employees gave the PHIL motivational training top rating for popularity and satisfaction. The next step is to integrate these values and concepts into the daily management of the enterprise.

ORGANIZATIONAL CLIMATE—OBJECTIVES ACHIEVED

A first survey of the organizational climate was conducted among all employees in 2001. A second survey done at the end of 2003 found that the improvement objectives have been achieved.

GAZ MÉTRO TO TRAIN SUPÉRIEUR PROPANE TECHNICIANS

The *École de technologie gazière*, working toward its goal of increasing the number of external clients, last September signed an agreement that will see it be the accredited trainer for Supérieur Propane technicians. A custom-made training program for some 60 students will begin in Spring 2004.

This important breakthrough confirms the training centre's position as a leader not only with expertise in its field, but also with the advanced technology to apply it.

GAZ MÉTRO EXCEEDS ITS INITIAL ENERGY SAVINGS OBJECTIVE BY 167%

Gaz Métro's Energy Efficiency Plan (EEP) helps customers manage their energy demand efficiently and so reduce their energy use.

The Plan's results exceeded the initial objective of 8.3 million cubic meters by 167% this year, representing an annual reduction in natural gas consumption of 22 million cubic metres, five times more than the year before. These energy savings also translate into a reduction in greenhouse gas emissions. This year, close to 9,000 residential and over 300 business customers joined the EEP programs.

The Energy Efficiency Fund, administered with several social and environmental interest groups in Quebec, invested some $2,500,000 this year in the introduction of 12 imaginative programs, some designed primarily for needy customers.

The Energy Efficiency Plan's initial energy savings objective was exceeded by 167%. This represents an annual reduction in natural gas consumption of 22 million cubic metres, five times more than the year before. These energy savings also translate into a reduction in greenhouse gas emissions.

NATURAL GAS WEEK—BACK TO SCHOOL!

The first Natural Gas Week, held May 26-31 with the theme "A committed company, a known energy," was a great success. Several educational and awareness-raising activities helped demonstrate the advantages of natural gas for Quebec as a whole. Members of the media, in particular, received some basic training at the *École de technologie gazière*.

The *Affaires* seminar put on by the *Association québécoise du gaz naturel* was also a first. The seminar was part of the Association's effort to support the development and growth of firms working in the residential and commercial sectors. The Oriflamme Gala, which closed a week of activities celebrating the best in the natural gas world in Quebec, attracted many personalities and was attended by more than 700 guests.

GAZ MÉTRO—A NEW IMAGE

The launch of the publicity campaign and the new image was held September 8, 2003. Employees were invited to attend special events in Montréal or Quebec City, which rekindled a sense of pride throughout the organization.

The positioning campaign aroused the enthusiasm of employees and the general public alike. For six weeks, three advertisements followed one another on the major networks and on specialized channels. In the print media, prominent ads were run in many major dailies in Quebec. This media presence also garnered high visibility thanks to the number of stories about natural gas and its advantages.

CONTINUOUS SUPPORT FOR CULTURE

Gaz Métro once again encouraged and supported the cultural sector through various sponsorships. The Montréal High Lights Festival, the *Orchestre symphonique de Montréal* and its summertime concerts in the parks, the *Sorties du TNM*, the *Festival de la Chanson de Granby*, the *Traversée internationale du Lac Saint-Jean* and the Granby Zoo were some of the major sponsorships this year.

ENERGETIC PARTNER IN LOCAL ECONOMIC DEVELOPMENT

Gaz Métro met with more than 150 elected officials, mayors and wardens during a tour of Quebec municipalities, which helped create links and exchange ideas on many subjects. As well, Gaz Métro's participation at annual meetings of the *Fédération québecoise des municipalités* and the *Union des municipalities du Québec* was well received, and confirmed Gaz Métro as an important partner in the municipal sector. In addition, the work of the two committees that liaise with these organizations is a model of cooperation and shows the parties' commitment to the development and security of the natural gas system, as well as their concern for energy efficiency and sustainable development.

OPENING OF TWO NEW BUSINESS OFFICES

The regionalization of Gaz Métro's activities continued in 2003 with the opening of two business offices, one in the Laurentians, one in the Montérégie region, wich today house more than 100 employees. The new interior design concepts for business offices ensure better synergy within the teams, which thus helps meet customer's needs better.

The new "life in blue" positioning campaign, mostly broadcast on the major TV stations, aroused the enthusiasm of employees and the general public alike. This media presence also garnered high visibility thanks to the number of stories about natural gas and its advantages.

MAJOR SAVINGS THANKS TO THE LATEST EQUIPMENT

Gaz Métro played the role of forerunner in using the latest "trench-digger" and "super-reel," technologies that make digging trenches and installing the system of polyethylene pipes faster and more efficiently. In the Lanaudière region, they enabled the workers to cover three times the distance in the same time as traditional technologies. The time saved translates into major savings.

Following the example set by Construction Marathon, a partner who uses these European-based technologies and who collaborated in adapting them to Quebec's infrastructures, other contractors are being encouraged to use this equipment by Gaz Métro.

GOOD NEWS FROM SUBSIDIARIES AND AFFILIATES

Climatisation et chauffage urbain de Montréal connected new customers on its steam-heating system in downtown Montréal (Château Champlain) and on its cooling system in the Cité du Multimédia (Europa, Phase 5 and Quai de la commune). Some 20 buildings, representing 16 million square feet, are now served by the CCUM plant.

Gaz Métropolitain Plus, which offers maintenance services for heating equipment in the residential, commercial and institutional markets, recorded an increase of 16% in service calls over the previous year.

In the water sector, Aqua-Rehab completed ten new rehabilitation contracts this year in Montréal, Laval and Gatineau without digging any trenches. The technology, which uses the new structural casing procedure, helps municipalities achieve savings of more than 40% compared with the cost of replacing infrastructures. Also, its acquisition of a 50% interest in *MSC Réhabilitation* means that Aqua-Rehab can now offer services to rehabilitate wastewater systems.

With its fibre optics network, Cable VDN has attracted several prestigious customers, clearly demonstrating the added value this metropolitan telecommunications system brings commercial clients. New clients include CGI, IBM, Telus, Sprint, MCI and some Canadian banks.

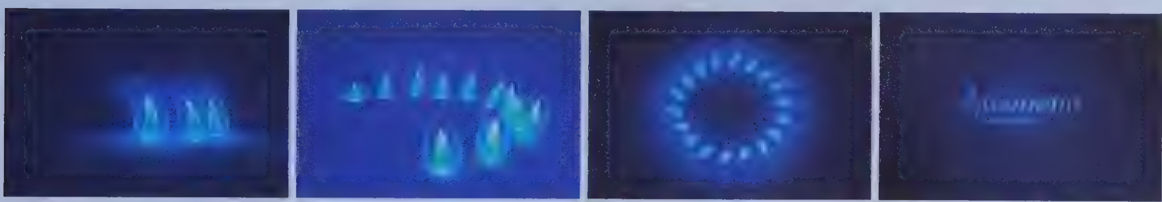
TelDig, which is 50% owned by Gaz Métro, achieved some important breakthroughs in Ontario and Wisconsin, where it supplied software to handle requests to locate underground public service infrastructures. TelDig technology is currently used by Info-Excavation in Quebec and in other Canadian provinces and some U.S. states for locating underground networks.

Vermont Gas saw its clientele increase by 3.5% in 2003, with the addition of some 1,240 new customers and 40 kilometres of pipelines to serve them. In a further achievement, the American Council for an Energy Efficient Economy has recognized Vermont Gas' energy efficiency programs as being exemplary.

Gaz Métro is a breaking new ground in using technologies that make extending the natural gas system faster and more efficient. The time saved translates into major savings.

GazMétro
life in blue

Blue is at the base of a flame, its hottest point. Blue is thus a source of heat, as well as a source of ambiance, comfort and well-being. Blue is synonymous with peace—as in peace of mind—with silence and purity. Blue is also light. What better word, then, what better color to describe the life that users of natural gas enjoy? “life in blue” is the new corporate signature of Gaz Métro. More than just three little words, “life in blue” says it all—choosing natural gas means opting for a perfectly controlled universe, at the service of our well-being and that of our industries.



Above and beyond applying policies, the Partnership values its employees' commitment to the community. Knowing they are the ones in the best position to fly the corporate colors and represent it, Gaz Métro encourages them to excel, both individually and collectively. Their initiative and exemplary dedication prove that when we give the best of ourselves, we can achieve excellence.

Gaz Métro remains steadfast in its commitment to sustainable development. By adopting an approach that meets the needs of the present without compromising the ability of future generations to meet theirs, Gaz Métro is once more showing leadership. Here is how Gaz Métro has chosen to help improve the well-being of the community and protect the environment.

ACTIVE IN THE COMMUNITY

Every year, Gaz Métro gives more than **$1,000,000** to support non-profit organizations. Of this, a little more than half goes toward health and education.

PRESENT AND ACCOUNTED FOR

Organizations in the Greater Montréal Region received almost **50%** of the total donated. And because it cares about giving equitably, Gaz Métro shares its financial assistance among all the regions of Quebec where it operates.

HEALTH: A PRIORITY

Gaz Métro supports several research institutes and many foundations that help people who are ill. The Partnership's total contribution of some **$300,000** has helped, in particular, research into mental illness, geriatrics, organ transplants, and cancer.

EMPLOYEES PEDAL FOR KIDS

Ten or so employees pedalled on a giant bike decked out in the Partnership's colours at a fundraising event for the Montréal Children's Hospital. The bike ride contributed to the Foundation's objective of raising **$650,000**. The funds will go to finance the purchase of three heart-lung machines and toward the total renovation of the Adolescent Medicine Clinic.

LEARN IN ORDER TO BUILD

Knowing how important education is to our society, Gaz Métro is once again encouraging excellence. For example, almost **$250,000** went to support the efforts of organizations that help prevent dropouts, to support the work of research foundations at Quebec's universities, as well as to specialized and higher learning institutions.

HELPING THOSE WHO HELP OTHERS

The contributions to Centraide from Gaz Métro and its employees this year totalled about **$150,000**.

ISO 14001: CERTIFICATION MAINTAINED

Gaz Métro has maintained once again this year the registration of its environmental management system in accordance [illegible] reflects **excellence** not only [illegible] regulatory compliance and in controlling environmental impacts, but also in the high degree of employee commitment in taking concrete steps to protect the environment.

BIKE TO WORK!

During Environment Week, people were encouraged to use bikes to get around instead of cars. The campain was a **great success**, and 70 employees covered 3,000 kilometres in all, equal to a reduction of between 700 and 1,200 kilos in greenhouse gas emissions.

$1,000,000 MORE EACH YEAR TO ENCOURAGE CONVERSION TO NATURAL GAS

Environmental aspects were reviewed as part of the renegotiation of the regulatory framework that governs Gaz Métro. Agreement has been reached to include service quality index that will motivate Gaz Métro to continue, and even exceed its 2001 achievements in reducing the greenhouse gases generated by its operations. It will be recalled that Gaz Métro had, by 2001, already reduced the intensity of its emissions by 30% compared with 1990. The agreement also provides for an [illegible] **$1,000,000** [illegible] who are currently consuming more polluting forms of energy and that would not have been possible under existing programs. The agreement, which still has to be approved by the *Régie de l'énergie*, provides for continuing the Energy Efficiency Fund, which encourages the adoption of energy efficiency measures by consumers of natural gas.

BIOGAS ON THE AGENDA

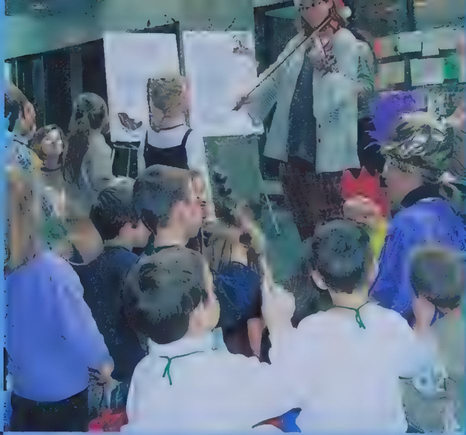
The symposium on biogas and CO_2 credits organized by Gaz Métro and its Partners brought together more than 150 delegates from environmental, municipal and business circles and attracted much media attention. The event featured exchanges and discussions on the **economic and environmental advantages of using biogas**.

GAZ MÉTRO CUSTOMERS WANT TO GET INVOLVED

Gaz Métro customers have demonstrated more than ever that they want to play a part in protecting the environment. This year, the Energy Efficiency Plan programs to which they belong helped cut consumption of natural gas by 22 million cubic metres, which represents a reduction of more than 42,000 tons of greenhouse gas emissions—**five times more than last year**.

GAZ MÉTRO IN FAVOUR OF KYOTO PROTOCOL

Gaz Métro representatives clearly expressed the Partnership's commitment to the environment when they addressed the Quebec Parliamentary Commission on the implementation of the **Kyoto Protocol** last spring. They emphasized the role natural gas can play in achieving the objectives of reducing greenhouse gas, the need to use biogas from sanitary landfill sites, as well as the contribution Gaz Métro makes as a leader in energy efficiency.



LEADERSHIP PRIZE FOR GAZ METRO

FINANCIAL HIGHLIGHTS

In 2003, Partners' income was down by $1.3 million, or 0.8%, from $154.6 million ($1.40 per unit) in 2002 to $153.3 million ($1.39 per unit). This is the net result of a $3.3 million improvement in the Partnership's operations that, as is explained further on, was more than offset by the reduction in the federal income tax rate included in the rates for the distribution and transportation activity in Quebec, which reduced income by approximately $4.6 million compared to 2002.

Distribution sector income is down by $4.1 million. This is offset by a $3.8 million increase in the transportation sector. Income in the Energy Services sector is virtually unchanged.

CONSOLIDATED OPERATING RESULTS

REVENUES

Revenues are up by $149 million, or 9.3%, to $1.757 billion from $1.608 billion in 2002. The increase can be explained primarily by the 34.3% jump in system gas prices, which rose from an average of $4.66/gigajoule in 2002 to $6.26/gigajoule in 2003. Natural gas purchased by the Partnership is billed to customers at cost, with the result that fluctuations in natural gas prices do not have any direct impact on gross margin or Partners' income.

GROSS MARGIN

Gross margin is $568.8 million for the 2003 fiscal year, compared to $555.9 million for the preceding year. The net increase of $12.9 million, or 2.3%, is basically attributable to higher rates in the Quebec distribution activity ("GMCLP-QDA") and the improved profitability of subsidiaries and other investment interests.

EXPENSES

Operations and maintenance expenses of $193.6 million in 2003 are up by $16.9 million from $176.7 million the preceding year, primarily due to the income tax expense (included in Operations and Maintenance expenses) on income earned by Portland Natural Gas Transmission System ("PNGTS"), higher property taxes, royalties to the *Régie de l'énergie du Quebec* ("*Régie*"), total payroll costs and a contribution to the pension fund for management personnel. Depreciation and amortization of $131.9 million are $3.3 million lower than the preceding year. Interest on long-term debt is up by $2.2 million to $86.7 million from $84.5 million in 2002, reflecting an increase in the debt load required to finance assets. In addition, financial and other expenses, which represent mainly interest on short-term debt, amount to $3.3 million compared to $4.9 million in 2002. The $1.6 million decrease is the result of lower short-term interest rates in 2003 included in the rate case approved by the *Régie* for the regulated Quebec distribution activity. Total expenses are up by $14.2 million from $401.3 million in 2002 to $415.5 million in 2003.

PARTNERS' INCOME

Partners' income is down by $1.3 million from $154.6 million in 2002 to $153.3 million in 2003. However, income in 2002, which was $13.4 million higher than in 2001, was a record high.

In addition, Partners' income is approximately $4.6 million lower than what it would have been if the corporate tax rate had remained the same as in 2002. The Partnership and TQM PipeLine and Company, Limited Partnership ("TQM") include a deemed current tax cost, representing the expense payable by the Partners, in the rates for their regulated activities. Accordingly, the 2.0% reduction in the federal tax rate in 2003 reduces both revenues and Partners' income, which is before tax. A further 2.0% reduction in the federal tax rate will also affect Partners' income for the 2004 year.

The 2003 year includes an incentive return of approximately $4.1 million ($0.1 million in 2002) for GMCLP-QDA for productivity gains as determined in accordance with the performance incentive mechanism approved by the *Régie*.

Furthermore, results for the 2003 year include the Partnership's $4.4 million share of the overearnings of $13.2 million earned by GMCLP-QDA during the 2003 year. The remaining $8.8 million will be returned to customers in the form of a $6.2 million reduction in rates, and $2.6 million will be contributed to the Energy Efficiency Fund ("EEF"). In 2002, the overearnings of $27.0 million were shared by the Partnership ($9.0 million), the customers through rate reductions ($12.7 million) and the EEF ($5.3 million).

Finally, transportation sector income was $3.8 million higher than in 2002.

On September 30, 2003, the Partnership issued 3.5 million units at $20.30 each for net proceeds of $66.6 million, which will be used to repay a portion of the outstanding commercial paper. This will enable the Partnership to maintain an optimal capital structure for regulatory purposes.

Because the units were issued on the last day of the fiscal year, the weighted average number of outstanding units, i.e. 110.5 million, is the same as the preceding year. Partners' income per unit of $1.39 is $0.01 lower than in 2002.

INCOME TAX

Because of the Partnership's limited partnership status, income tax is not included in the calculation of Partners' income, such expense being borne by each Partner. The Partnership has an agreement with the tax authorities on harmonizing as much as possible the rules for calculating income for tax purposes with regulatory accounting principles. For the year ended September 30, 2003, income for tax purposes exceeded distributions by 10.2% for federal purposes and 9.7% for Quebec purposes. On average, since 1993, income for tax purposes has exceeded distributions by 7.6% for federal purposes and 6.9% for Quebec purposes. Historically, differences have been as high as +26.8% (unfavourable variance for a taxable Partner) and as low as –18.1% (favourable variance for a taxable Partner). Partners that hold their units in a non-taxable vehicle, such as an RRSP, are not affected by the difference between income for tax purposes and distributions received.

FINANCIAL STRUCTURE

The Partnership's balance sheet shows total assets of $2.431 billion in 2003, an increase of $94 million from $2.337 in 2002. The $39.3 million increase in "Current assets" can be explained primarily by higher accounts receivable and inventories. The $27.5 million increase in "Property, plant and equipment" is due to investments made to develop and improve the various transportation and distribution systems. The $27.2 million increase in "Other assets", i.e. deferred charges, investments and other and goodwill, can essentially be explained by an increase in natural gas-related costs as a result of higher prices for system gas ($44.3 million) and an increase in computer development investments ($10.1 million), offset in part by a decrease in the rate stabilization accounts ($29.5 million).

The accounts receivable securitization program optimizes the use of the Partnership's financial assets. A maximum limit of $85.0 million has been negotiated with a financial institution. As at September 30, 2003, the value of the accounts receivable that had been securitized and, therefore, not shown in the balance sheet, net of the subordinated rights retained by the Partnership amounts to $60.5 million compared to $47.5 million at the end of the 2002 year.

Long-term debt basically includes first mortgage bonds issued by the Partnership and the pro rata share of those issued by TQM. These bonds bear interest at fixed rates and mature at various dates up to October 2030. As at September 30, 2003, total outstanding bonds amount to $850.5 million ($853.5 million in 2002). The Partnership's policy is to fix interest rates on approximately 75% of its long-term debt and leave the balance at floating rates. As at September 30, 2003, 76% of total long-term debt is at fixed rates.

The Partnership has various bank lines of credit, including a term loan of $300.0 million and operating lines totalling $143.0 million. The term loan can be used to finance the Partnership's current operations and capital expenditures or to support its commercial notes program. As at September 30, 2003, total borrowings on these lines, including the commercial notes, are $266.8 million ($223.9 million in 2002). No repayments of the term loan are required before April 30, 2005.

The subsidiaries and joint ventures have term loans and operating lines. The Partnership's pro rata share of these facilities is $175.0 million and $49.4 million respectively. As at September 30, 2003, the share of the borrowings from these facilities totals $191.5 million ($185.0 million in 2002). The Partnership estimates that the available operating lines will cover seasonal cash flow requirements for the 2004 fiscal year.

Partners' equity of $876.0 million as at September 30, 2003 is $53.3 million higher than the preceding year. This can be explained by the aforementioned unit issue and a $5.3 million excess of Partners' income over distributions paid, less the unfavourable $18.7 million translation adjustment due to the decrease in the value of the U.S. dollar in relation to the Canadian dollar.

As indicated in the financial statements, the Partnership uses financial derivatives to stabilize the cost of natural gas. The Partnership had the parameters of its derivative policy approved by the *Régie* for the distribution of gas in Quebec. This policy establishes the parameters for using financial instruments to protect customers against the volatility of system gas costs. On average, as at September 30, 2003, the cost of this partial protection is $0.11/gigajoule for total forecast system gas volumes for the next three years. This partial protection covers respectively 74%, 60% and 17% of the forecast system gas volumes for 2004, 2005 and 2006. Moreover, gains or losses attributable to these financial instruments are reimbursed or recovered through gas supply rates in accordance with the method approved by the *Régie*.

CASH FLOWS FROM OPERATIONS
(IN MILLIONS OF DOLLARS)

ACQUISITIONS OF PROPERTY, PLANT AND EQUIPMENT
(IN MILLIONS OF DOLLARS)

A › DISTRIBUTION	› 93.3
B › TRANSPORTATION	› 5.0
C › OTHER	› 7.4
TOTAL	›105.7

The Partnership and certain subsidiaries and joint ventures also use swaps to hedge against possible interest rate hikes or foreign exchange fluctuations. In line with the Partnership's policy, derivative products are only used to cover risks flowing from actual operations and cannot be used for speculative purposes.

The Partnership's financial structure and stability have enabled it to maintain credit ratings of A for its long-term bonds, A-1 (low) for its commercial paper and SR-1 for its income distribution stability from Standard & Poors, and ratings of A, R-1 (low) and STA-1 (low) respectively from Dominion Bond Rating Service.

LIQUIDITY AND CAPITAL STRUCTURE

Consolidated cash flows, before changes in non-cash working capital items, total $349.1 million compared to $286.2 million generated during the preceding year, an increase of $62.9 million, or 22.0%. This increase can be explained primarily by the change in the rate stabilization accounts, primarily the temperature-related accounts.

The rate stabilization account for temperatures normalizes revenues upward or downward based on volumes that would have been sold in Quebec if temperatures had been normal. However, this does not involve any receipt or outlay of funds in the year volumes are normalized. Revenues were adjusted downward by $11.7 million in 2003, due to colder than normal temperatures, compared to an upward adjustment of $50.5 million in 2002 when temperatures were much milder than normal. The regulatory mechanism provides that the Partnership may, starting in the second subsequent year, reimburse or recover these amounts from customers through an annual rate adjustment over the next five fiscal years.

The Partnership invested $50.2 million in non-cash working capital items in 2003 compared to $12.6 million generated in 2002. This can be explained primarily by an increase in inventories and a reduction in accounts payable and accrued liabilities. Operating activities, after the change in non-cash working capital items, generated $298.9 million during 2003 and 2002.

The Partnership made investments of $261.0 million in 2003 compared to $111.3 million in 2002, an increase of $149.7 million. Deferred charges of $129.7 million are $117.8 million higher than in the 2002 year. The increase is primarily attributable to the increase in the deferred charges relating to the natural gas prices that will be recovered during the 2004 year.

Acquisitions of property, plant and equipment are up by $10.7 million in 2003 to $105.7 million. This increase can be explained primarily by higher investments in Quebec distribution activities.

The Partnership increased its ownership interest in PNGTS from 20.7% to 26.9% as at September 30, 2003. Its ownership interest in 3632491 Canada Inc. (Aqua Data and Stelem) increased from 50% to 100% in 2003.

Distributions to Partners in 2003 amount to $148.0 million compared to $141.4 million the preceding year. Distributions per unit total $1.34 in 2003 compared to $1.28 in 2002.

ACTIVITIES BY SECTOR

The Partnership's three sectors of activity are the distribution and transportation of natural gas as well as energy services and other activities. The distribution of natural gas in Quebec is the Partnership's core business. This sector includes the natural gas distribution activities of the Northern New England Gas Corporation ("NNEG") group in Vermont.

The transportation sector includes a 50% interest in TQM and a 26.9% interest in PNGTS. It also includes the activities of Champion Pipe Line Corporation Ltd. ("Champion"), a subsidiary.

Energy services and other includes the Partnership's unregulated activities, in particular the activities of Gaz Métropolitain Plus Limited Partnership and other wholly-owned subsidiaries, such as Climatisation et Chauffage Urbain de Montréal, Servitech Combustion Inc., Option Gaz Ltée and Aqua Data/Stelem Inc. The investment interests in the Aqua-Rehab Inc. group and TelDig Systems Inc. are also part of this sector.

The Partnership's assets consist mainly of property, plant and equipment used for the distribution of natural gas. Of total assets of $2.431 billion, 78% relate to the distribution sector, 18% to transportation activities and 4% to energy services and other. This breakdown is similar to 2002.

The Partnership's distribution revenues include the cost of natural gas, which, as has already been explained, has no impact on the results of the Quebec distribution activity, the core business. Accordingly, gross margin provides a better indication than revenues of the Partnership's performance. Distribution and transportation activities generate 96% of the consolidated gross margin of $568.8 million. The rates that generate this portion of the gross margin are set by regulatory authorities based on the approved cost of service, including a return on equity employed. Energy services and other generated 4% of the Partnership's consolidated gross margin in 2003.

In 2003, the transportation and distribution sectors generated all of the Partners' income. Energy services and other almost broke even.

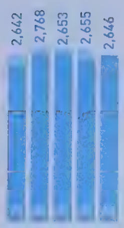
DISTRIBUTION SECTOR

The Partnership delivers approximately 97% of the natural gas consumed in Quebec. Vermont Gas Systems, Inc. ("VGS"), a wholly-owned subsidiary of NNEG, is the sole gas distributor in Vermont. In 2003, deliveries in Vermont represented 4% of the Partnership's total deliveries. In Quebec, the distribution activity is regulated by the *Régie*. VGS is regulated by the Public Service Board.

In Quebec, the Partnership benefits from a normalization mechanism for its distribution revenues based on normal temperatures. In order to normalize revenues, volumes have to be normalized (for temperatures). These volumes are more representative of the Partnership's core business. Following the relatively recent unbundling of rates, the Partnership reviewed the presentation of normalized volumes starting in the 2002 year in order to more accurately reflect the commercial reality underlying the normalization. Given the fact that the impact of temperatures on volumes in the commercial and residential markets has a direct impact on the ability to serve the industrial interruptible market and that the monetary impact on each market is included in normalization-related revenues or expenses, normalized volumes will henceforth be presented for all customers. Volumes for 2002 have been restated to reflect this change.

Normalized volumes were down by 3.4% from 5,921 million cubic metres in 2002 to 5,717 million cubic metres in 2003. Temperatures were colder than normal during the year and actual deliveries are 11 million cubic metres higher than normalized volumes in 2003. In 2002, milder than normal temperatures had resulted in a 241 million cubic metres increase in the normalization.

DELIVERIES
TO COMMERCIAL
AND RESIDENTIAL
CUSTOMERS
(IN MILLIONS OF CUBIC METRES)
DELIVERIES
NORMALIZATION



DELIVERIES
TO INDUSTRIAL
CUSTOMERS
(IN MILLIONS OF CUBIC METRES)
DELIVERIES
NORMALIZATION
BEGINNING IN 2002

KILOMETRES
OF DISTRIBUTION
PIPELINES

In the commercial and residential markets, normalized volumes were 2,646 million cubic metres compared to 2,655 million cubic metres in 2002. In the industrial market, normalized volumes are down by 6.0% to 3,071 million cubic metres in 2003 compared to 3,266 million cubic metres in 2002. The decrease is attributable to the interruptible service market where the competitive position of natural gas was unfavourable.

Colder temperatures than normal in 2003 resulted in actual gas deliveries of 5,728 million cubic metres compared to 5,680 million cubic metres in 2002, an increase of 0.8%. This can be explained by 13.6% more deliveries in the commercial and residential markets, i.e. 2,417 million cubic metres in 2002 compared to 2,747 million cubic metres in 2003, offset by an almost identical decrease in deliveries in the industrial interruptible market.

Capital expenditures in the distribution sector totalled $93.3 million in 2003 compared to $88.5 million in 2002. Investments made in 2003 included the construction of 192 kilometres of pipelines, system improvements, in particular in terms of safety, and various general expenditures such as buildings and the vehicle fleet.

The distribution sector has 188,716 customers—153,684 in Quebec and 35,032 in Vermont. To serve these customers, the Partnership had, as at September 30, 2003, 1,256 employees in Quebec and 112 in Vermont. Operations and maintenance costs for the distribution sector are $160.4 million in 2003 compared to $151.0 million in 2002, an increase of 6.2%, attributable to, among other things, higher property taxes, royalties to the *Régie*, total payroll costs and a resumption of contributions to the pension plan for management personnel. Depreciation and amortization amount to $119.0 million in 2003 compared to $113.7 million the preceding year. Interest on long-term debt is $65.8 million in 2003 compared to $65.0 million in 2002.

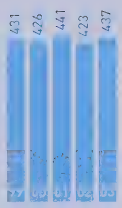
In summary, the distribution sector generated income of $138.0 million, in 2003 compared to $142.1 million in 2002, a decrease of $4.1 million, of which approximately $4.2 million can be explained by the unfavourable impact of the decrease in the federal tax rate.

TRANSPORTATION SECTOR

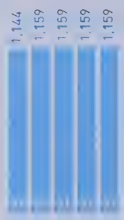
The transportation sector includes the ownership interests of 50% in TQM and 26.9% in PNGTS and the activities of Champion, a wholly-owned subsidiary. TQM operates a 572-kilometre transportation system in Quebec that is composed of two lines—a line that extends from Saint-Lazare, west of the Island of Montréal, to Saint-Nicolas, in the suburbs of Quebec City, and a line that extends from its mainline in Lachenaie to East Hereford at the Quebec/New Hampshire border. The 489-kilometre PNGTS pipeline originates at East Hereford and crosses parts of New Hampshire, Maine and Massachusetts to the suburbs of Boston. Champion serves the Partnership's distribution system in the Abitibi/Témiscamingue region in Quebec with two gas pipelines totalling 98 kilometres.

TQM and Champion are regulated by the National Energy Board. TQM's cost of service is incorporated in the cost of service of TransCanada PipeLines Limited ("TransCanada") to which TQM's system is connected. PNGTS is regulated by the Federal Energy Regulatory Commission ("FERC") in the United States. In January 2003, the FERC issued an uncontested ruling that, among other things, increased the annual rate from US$0.63 to US$0.85 per decatherm for the period from April 1, 2002 to March 31, 2006 (US$0.83 per decatherm for the period from April 1, 2006 to March 31, 2008) and a reduction of the accounting depreciation rates from 4% to 2% per year.

PARTNERSHIP'S SHARE OF TRANSPORTATION ASSETS
(IN MILLIONS OF DOLLARS)



KILOMETRES OF TRANPORTATION PIPELINES



For 2003, gross margin for the transportation sector is $63.6 million compared to $62.8 million in 2002. The $0.8 million increase can be explained primarily by the increase in PNGTS' rates for a full year in 2003 as opposed to part of a year in 2002. Operations and maintenance costs are $17.6 million in 2003 compared to $13.9 million in 2002. The increase of $3.7 million can be explained primarily by the increase in income taxes (included in Operations and Maintenance expenses) as a result of the Partnership's decision to recognize its share of PNGTS' income following its rate increase. Depreciation and amortization are $10.0 million in 2003 compared to $17.8 million in 2002. The $7.8 million decrease can be explained by, among other things, the FERC's decision to authorize the reduction of the depreciation rate from 4% to 2%. Interest on long-term debt of $19.2 million represents an increase of $1.0 million over 2002.

Partners' income generated by the transportation sector is therefore $16.6 million for the 2003 year compared to $12.8 million in 2002. The increase of $3.8 million is primarily attributable to the recording of the pro rata share of PNGTS' income in 2003, which was not done in 2002 due to the uncertainty as to whether a rate increase would be approved.

ENERGY SERVICES AND OTHER

Revenues from this sector are $60.9 million in 2003 compared to $56.0 million in 2002. The higher revenues essentially reflect the growth in the activities of Aqua Data and the Aqua-Rehab Group, there being virtually no change from 2002 in the revenues of the energy services. Gross margin of $21.3 million in 2003 is up $3.3 million over the 2002 year. Operations and maintenance expenses of $15.8 million are also up $3.3 million over the preceding year. Both of these increases are due primarily to the full-year's impact in 2003 of an acquisition in the second quarter of 2002.

The Energy services and other sector practically broke even in 2003, the same as in 2002.

SUBSEQUENT EVENTS

Section 3063 of the Handbook of the Canadian Institute of Chartered Accountants ("CICA") entitled *Impairment of long-lived assets* was published in December 2002. Among other things, the Section establishes the recognition, measurement and reporting standards with respect to the impairment of long-lived assets held for use. The adoption of this standard in 2004 will not have any significant impact on the Partnership's financial statements.

In November 2002, the CICA deferred the effective date of Accounting Guideline AcG-13, *Hedging Relationships*, which establishes the standards for the identification, designation, documentation and effectiveness of hedging relationships for the purpose of hedge accounting. The Partnership will apply the hedge accounting provisions as of October 1, 2003 to all of its financial instruments, except those related to the activities of GMCLP-QDA, for which specific regulatory treatment applies.

On October 8, 2003, Rumford Power Associates, L.P. and Androcosggin Energy, L.L.C., two subsidiaries in the Calpine group, filed a claim with the FERC alleging that PNGTS had violated the final agreement with its suppliers that provides, among other things, that a seasonal rate rebate offered to a shipper must also be offered to all of PNGTS' suppliers. On October 31, 2003, the FERC approved a new posted seasonal rate, thereby eliminating any potential for a claim after that date. Over the course of the next few weeks, the FERC should render a decision on the rate rebate claim for the period from November 12, 2002 to October 31, 2003. If the decision goes against PNGTS, the negative impact on GMCLP's income is estimated to be approximately $2.0 million.

On October 20, 2003, TransCanada announced that it had made a commitment to purchase the 29.6% interest of El Paso Corporation ("El Paso") in PNGTS for cash disbursements of approximately US$56.5 million. In accordance with the provisions of the PNGTS Partnership Agreement, GMCLP, through its rights of first offer, had the option to acquire its pro rata share of El Paso's ownership interest in PNGTS for approximately US$19.9 million. On November 17, 2003, the Partnership notified El Paso of its intention to exercise its rights and increase its interest in PNGTS by 11.35%. After the transaction, GMCLP's ownership interest in PNGTS will be 38.3%, and TransCanada will own 61.7%.

On October 21, 2003, the Partnership issued 517,500 units at a price of $20.30 in accordance with the terms and conditions stipulated at the time of the September 30, 2003 issue, in respect of the additional units to which the underwriters were entitled. The net proceeds of this portion of the issue was $10.0 million.

On October 31, 2003, Gaz Métropolitain, inc. signed a selling agency agreement for the sale of first mortgage bonds in the amount of $125.0 million. The bonds, which bear interest of 6.30%, mature on October 31, 2033. Gaz Métropolitain, inc. lent the proceeds of the issue to the Partnership on the same terms and conditions. The funds will be used to reduce outstanding debt and finance capital and other general Partnership expenditures.

On November 18, 2003, the name Gaz Métropolitain and Company Limited Partnership was changed to Gaz Métro Limited Partnership.

RISKS AND UNCERTAINTIES

As has already been stated, the Partnership's core business is the distribution of natural gas in its franchise areas in Quebec and Vermont. Its ability to achieve sound financial results is mainly dependent on the competitiveness of natural gas in relation to other energy sources, the evolution of interest rates, the economic context in which the businesses it serves operate and the decisions rendered by the regulatory authorities, in particular the *Régie*, with respect to rates and authorized return on Partners' equity allocation to Quebec distribution. The base rate of return authorized by the *Régie* is determined by a formula that fixes the return as a function of forecast Canadian long-term interest rates. The base rate of return has been fixed at 9.45% for the 2004 year compared to 9.89% for 2003. It can be increased depending on forecast or realized productivity gains determined in accordance with the performance incentive mechanisms approved by the *Régie*. The incentive mechanisms are designed to reward the Partnership for generating a greater return on investment, optimizing asset use and exercising tighter control over costs. For 2004, the incentive included in the rates represents a return on deemed equity of 1.51% compared to 0.45% in 2003.

The Partnership's income growth over the longer term will depend in particular on the increase in investments related to the development of its distribution and transportation systems or the construction of gas pipelines and similar projects, or acquisitions. To a lesser extent, growth will also come from its ability to develop its unregulated activities.

The main uncertainty with respect to the distribution activity is gas price levels over the medium term following the major fluctuations of the past few years. While storage levels are satisfactory as the 2003-2004 winter is about to begin, the volatility of gas prices will depend on temperatures during the winter and the rate of economic growth in North America. The Partnership uses financial derivatives to stabilize system gas prices.

In Quebec, electricity has the greatest share of the residential market and its stable price makes competition more difficult even if natural gas is on an even footing when modern high-performance appliances are used. However, the announced unfreezing of electricity rates will improve the Partnership's competitiveness in this sector. In the commercial market, natural gas enjoys a generally favourable competitive position, which can be as much as 15% in certain segments.

If the difficult competitive situation in relation to heavy fuel oil were to persist, certain industrial customers and other large users might not be willing to make long-term commitments for significant volumes. The Partnership continues to watch for specific opportunities to offer natural gas at favourable prices at various times in order to satisfy customer needs. There are considerations other than price that are factors when choosing an energy source. Ease of use and respect for the environment are characteristics that make natural gas a preferred choice.

OUTLOOK AND PRIORITIES FOR THE 2004 FISCAL YEAR

The challenge for the current and future years will be to continue the profitable development of the distribution activity in Quebec based on increasing the customer base in the commercial and residential markets, controlling expenses and ensuring the safety and reliability of the gas system. Financial performance is heavily dependent on the state of the economy and the demand for natural gas. In Vermont, where natural gas is much less expensive than electricity and the competition comes from fuel oil, VGS anticipates continued development.

The Partnership does not foresee any major issues in the transportation sector next year because PNGTS has a new rate in addition to having refinanced its debt. In the energy services sector, Gaz Métropolitain Plus will continue its efforts to improve profitability through a consolidation of its activities and increasing sales. In 2004, Aqua Data and Aqua-Rehab will respond to municipal demands to rehabilitate their water distribution and waste water infrastructures. Expansion will continue in the United States.

In April, the Partnership completed the implementation of Phase II of the SAP technology on time and on budget. In 2004, the focus will be on consolidating the Enterprise Resource Planning System.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED SEPTEMBER 30, 2003 AND 2002

MANAGEMENT'S REPORT

ON THE CONSOLIDATED FINANCIAL STATEMENTS OF GAZ MÉTROPOLITAIN AND COMPANY, LIMITED PARTNERSHIP

The consolidated financial statements of Gaz Métropolitain and Company, Limited Partnership and all of the information in this report are the responsibility of the management of Gaz Métropolitain, inc., acting in its capacity as General Partner of Gaz Métropolitain and Company, Limited Partnership. It is management's responsibility to select the appropriate accounting policies and to exercise its best judgement in determining reasonable and fair estimates based on Canadian generally accepted accounting principles and decisions from the Régie de l'énergie with respect to the natural gas distribution activity in Quebec. Financial information found elsewhere in this report is consistent with the consolidated financial statements. This information and the consolidated financial statements are published with the Board of Directors' approval.

Management maintains accounting and internal control systems that are designed to provide reasonable assurance that accounting records are reliable and assets are safeguarded.

The Board of Directors assumes its responsibilities for the financial statements primarily through the Audit Committee, made up solely of outside directors. The Audit Committee has reviewed all of the information in this report as well as the annual financial statements and has recommended they be approved by the Board. The Audit Committee also examines on a continuous basis the quarterly financial results, the results of internal and external audits of accounting methods and the system of internal controls. The Audit Committee also recommends to the Board the choice of external auditors. The external and internal auditors are free to communicate with the Audit Committee.

The firm of Raymond Chabot Grant Thornton, Chartered Accountants, has been given the mandate to audit the consolidated financial statements of Gaz Métropolitain and Company, Limited Partnership in accordance with Canadian generally accepted auditing standards. Their audit included the tests and other procedures they deemed necessary under the circumstances. Their independent opinion on the financial statements is presented hereinafter.

R. Tessier

ROBERT TESSIER
President and Chief Executive Officer
Gaz Métropolitain, inc.
Montréal, Canada
November 14, 2003

Pierre Despars

PIERRE DESPARS
Vice President Finance and Corporate Affairs
Gaz Métropolitain, inc.

AUDITORS' REPORT

TO THE PARTNERS OF GAZ MÉTROPOLITAIN AND COMPANY, LIMITED PARTNERSHIP

We have audited the consolidated balance sheets of Gaz Métropolitain and Company, Limited Partnership as at September 30, 2003 and 2002, and the consolidated statements of income, Partners' equity and consolidated cash flows for the years then ended. These financial statements are the responsibility of the management of Gaz Métropolitain, inc., acting in its capacity as General Partner of the Partnership. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as at September 30, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Raymond Chabot Grant Thornton

RAYMOND CHABOT GRANT THORNTON
General Partnership
Chartered Accountants
Montréal, Canada
November 14, 2003 (November 18, 2003 for Note 19 d) and e))

CONSOLIDATED INCOME

Years ended September 30, (in thousands of dollars and thousands of units)

	2003	2002
REVENUES	$1,756,537	$1,607,700
DIRECT COSTS	1,187,712	1,051,828
GROSS MARGIN	568,825	555,872
EXPENSES		
Operations and maintenance	193,602	176,669
Depreciation and amortization (Notes 4 and 5)	131,899	135,211
Interest on long-term debt	86,688	84,513
Financial and other	3,309	4,899
	415,498	401,292
PARTNERS' INCOME	$ 153,327	$ 154,580
BASIC AND DILUTED PARTNERS' INCOME PER UNIT (in dollars)	$ 1.39	$ 1.40
WEIGHTED AVERAGE NUMBER OF OUTSTANDING UNITS (Note 10)		
Basic	110,475	110,469
Diluted	110,485	110,473

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED PARTNERS' EQUITY

Years ended September 30, (in thousands of dollars)

	2003	2002
CAPITAL		
Balance, beginning of year	$ 809,511	$ 799,250
Cumulative effect of accounting change with respect to goodwill (Note 2f)	–	(2,919)
Adjusted balance, beginning of year	809,511	796,331
Units issues (Note 10a) and b))	66,704	–
Partners' income	153,327	154,580
	1,029,542	950,911
Distributions to Partners (Note 10c)	(148,036)	(141,400)
Balance, end of year	881,506	809,511
TRANSLATION ADJUSTMENT		
Balance, beginning of year	13,144	12,595
Change	(18,646)	549
Balance, end of year	(5,502)	13,144
PARTNERS' EQUITY	$ 876,004	$ 822,655

The accompanying notes to the consolidated financial statements are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

As at September 30, (in thousands of dollars)

	2003	2002
ASSETS		
CURRENT ASSETS		
Cash	$ 9,762	$ 10,640
Trade and other receivables (Note 3)	41,693	35,874
Inventories	251,823	216,343
Prepaid expenses	5,372	6,521
	308,650	269,378
PROPERTY, PLANT AND EQUIPMENT (Note 4)	1,786,207	1,758,678
OTHER ITEMS		
Deferred charges (Note 5)	280,530	261,989
Investments and other (Note 6)	32,430	24,049
Goodwill (Note 15)	23,382	23,063
	336,342	309,101
	$2,431,199	$2,337,157
LIABILITIES		
CURRENT LIABILITIES		
Bank borrowings (Note 8)	$ 30,805	$ 29,906
Accounts payable and accrued liabilities	235,768	243,485
Debt maturing within one year	16,738	44,351
	283,311	317,742
LONG-TERM DEBT (Note 9)	1,271,884	1,196,760
	1,555,195	1,514,502
PARTNERS' EQUITY (Note 10)	876,004	822,655
	$2,431,199	$2,337,157

The accompanying notes to the consolidated financial statements are an integral part of these statements.

On behalf of the Board of Directors of Gaz Métropolitain, inc.
in its capacity as General Partner,

ROBERT TESSIER
Director

RÉAL SUREAU
Director

CONSOLIDATED CASH FLOWS

Years ended September 30, (in thousands of dollars)

	2003	2002
OPERATING ACTIVITIES		
Partners' income	$ 153,327	$ 154,580
Non-cash items:		
Depreciation of property, plant and equipment	84,468	88,677
Amortization of deferred charges and financing costs	50,370	47,670
Reduction in deferred charges related to cost of natural gas	49,291	45,801
Rate stabilization accounts	11,680	(50,491)
	349,136	286,237
Change in non-cash working capital items (Note 11a)	(50,203)	12,599
CASH FLOWS RELATED TO OPERATING ACTIVITIES	298,933	298,836
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(105,659)	(94,955)
Deferred charges	(129,737)	(11,987)
Investments and other	(8,488)	(1,301)
Increase in ownership interest in a joint venture (Note 7(3))	(13,853)	–
Acquisitions of subsidiaries (Note 7(2))	(3,237)	(3,089)
CASH FLOWS RELATED TO INVESTING ACTIVITIES	(260,974)	(111,332)
FINANCING ACTIVITIES		
Change in bank borrowings	738	(8,978)
Change in term loan	(40,318)	(9,138)
Other long-term debt:		
Issues	86,730	14
Repayments	(4,655)	(21,070)
Units issues	66,704	–
Distributions to Partners	(148,036)	(141,400)
CASH FLOWS RELATED TO FINANCING ACTIVITIES	(38,837)	(180,572)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(878)	6,932
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,640	3,708
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 9,762	$ 10,640

The accompanying notes to the consolidated financial statements are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements of Gaz Métropolitain and Company, Limited Partnership (hereinafter the "Partnership" or "GMCLP") are prepared in accordance with Canadian generally accepted accounting principles. In preparing the consolidated financial statements, the Partnership's management has to make estimates and assumptions that have an impact on the assets and liabilities shown in the balance sheet, the contingent liabilities noted as at the date of the financial statements and on the revenues and expenses presented in the statement of income for the year. Actual results may differ from these estimates.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements of the Partnership include the accounts of GMCLP and its subsidiaries. In addition, the investments in joint ventures are accounted for under the proportionate consolidation method. Other investments are recorded at cost.

REGULATION

GMCLP is engaged primarily in the distribution of natural gas by pipeline in Quebec, a "regulated" activity (hereinafter "GMCLP-QDA"). The distribution rates are fixed by the Régie de l'énergie (hereinafter the "Régie") and the system development and marketing activities are subject to its supervision and control.

The *Act respecting the Régie de l'énergie* provides that the natural gas supply rate must reflect the actual acquisition cost of the distributor as well as any other supply condition allowed by suppliers. In Decision D-95-44, the Régie approved a periodic adjustment mechanism to the price of gas. In Decision D-90-42, the Régie approved an automatic rate adjustment mechanism, upward or downward as necessary, that allows the distributor to reflect cost variations arising from changes to the rates of its transportation and storage service suppliers and to the cost of compression gas.

The *Act respecting the Régie de l'énergie* also provides that distribution rates are set to enable the distributor to recover the cost of providing the service, to obtain a reasonable return on the rate base recognized by the Régie and to improve its performance by providing incentives.

In Decision D-90-75 issued on December 19, 1990, as part of the corporate reorganization of August 12, 1991, the Régie determined that the rate of return on the rate base would be set using an "adjusted" capital structure. With this structure, Partners' equity allocated to the Quebec distribution activity is in the order of 46.0%, including 38.5% that is compensated on the same basis as corporate common shares and 7.5% on the same basis as preferred shares. For regulatory purposes, GMCLP-QDA's operating expenses include deemed current income taxes, large corporations tax and capital tax. These deemed taxes are calculated as if GMCLP was a taxable Canadian corporation, notwithstanding the tax status and the tax rate of the Partners.

In addition, the Régie, in exercising its powers, renders decisions with respect to the use by GMCLP-QDA of certain accounting practices which differ from those otherwise applied in unregulated businesses, in particular with respect to certain deferred charges including rate stabilization accounts, property, plant and equipment and their related depreciation, income taxes and employee future benefits.

Finally, certain activities of subsidiaries and joint ventures are regulated by bodies such as the *National Energy Board* (hereinafter "NEB"), the *Federal Energy Regulatory Commission* and the *Vermont Public Service Board*.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash and very liquid short-term investments with a maturity of three months or less when purchased.

INVENTORIES

Natural gas in storage of GMCLP-QDA is carried at average cost using the monthly adjustment method, approved by the Régie, which provides for the total cost to be charged to customers. Inventories of materials and supplies are carried at the lower of average cost and replacement value.

PROPERTY, PLANT AND EQUIPMENT

Acquisitions, replacements and improvements are recorded at cost, including direct costs, general and administrative expenses and an allowance on funds used for certain construction projects as accepted by regulatory authorities. The historical cost of retired properties related to the distribution system and the retirement costs are applied against accumulated depreciation when the properties are retired. Under this method, no gain or loss on disposal of assets is realized.

Depreciation is calculated using mainly the straight-line method based on the residual useful lives of the existing assets. The rates are periodically revised and approved by the Régie and include recovery of the unamortized cost of existing assets, estimates of the future costs of retiring the properties and the profit and loss upon disposal of properties already retired.

DEFERRED CHARGES

GMCLP defers certain charges that are amortized and recovered in its rates over various periods not exceeding ten years depending on the nature of such charges.

Pursuant to Decision D-2000-183 with respect to the performance incentive mechanisms, GMCLP-QDA includes the customers' share of overearnings in deferred charges. This amount is returned to customers in the form of a rate reduction the year after the regulatory report is approved by the Régie.

To alleviate the effect of unpredictable and uncontrollable factors on its operations, the principal one being the impact of temperature fluctuations on its revenues, GMCLP-QDA is authorized by the Régie to maintain various rate stabilization accounts. Beginning in the second subsequent year, annual fluctuations are amortized over five years and recovered in rates.

GOODWILL

Goodwill represents the excess of the cost over the net amount of the values assigned to the assets acquired and liabilities assumed when an enterprise is acquired. Goodwill, which is not amortized, is subject to an annual impairment test. Such tests are also performed if events have occurred or circumstances changed indicating that there may be an impairment loss. The impairment test compares the carrying amount and the fair value of the Partnership's reporting units. If the carrying amount of a reporting unit is greater than its fair value, amortization of goodwill is measured on the basis of the excess of the carrying amount of goodwill over its fair value. The fair value of a reporting unit is calculated based on discounted cash flows or external valuations.

DEVELOPMENT ACTIVITIES

The costs related to development activities are capitalized except in cases where GMCLP does not have reasonable assurance that these costs will be recovered in the future.

FOREIGN CURRENCY TRANSLATION

Long-term debt payable in foreign currency is translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Gains and losses arising from translation are included in the results for the current year.

The assets and liabilities of foreign subsidiaries that are self-sustaining with respect to financing and operations are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Revenues and expenses are translated at the average rate prevailing during the fiscal year. Gains and losses are shown under the caption "Translation adjustment" in the consolidated Partners' equity.

REVENUES

Revenues are recognized when the commodities are delivered and include estimated volumes of natural gas delivered by distributors but not billed at the end of the year, as well as the impact of rate stabilization accounts of GMCLP-QDA resulting from temperature fluctuations. GMCLP-QDA customers' share, including the amounts transferred to the Energy Efficiency Fund, of any overearnings is deducted from revenues.

INCOME TAXES

GMCLP as well as its subsidiaries and joint ventures formed as limited partnerships do not show income tax expense since under existing legislation, it is the Partners who are taxable.

Subsidiaries and joint ventures formed as corporations use the tax liability method to record income taxes.

EMPLOYEE FUTURE BENEFITS

GMCLP-QDA charges pension contributions and post-employment benefits in income as the amounts are disbursed in accordance with actuarial valuations based on the most probable assumptions with respect to the forecast return on the plan's assets, salary increases and retirement age.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

EMPLOYEE FUTURE BENEFITS (CONT'D)

GMCLP's subsidiaries and joint ventures record post-employment benefits in accordance with the accounting practices prescribed by the Canadian Institute of Chartered Accountants (hereinafter "CICA"). The pension expense for defined contribution plans corresponds to the amount of the contributions. The cost for defined benefit plans and other post-employment benefits is determined by actuarial calculation based on a projected benefit method prorated according to eligible years of service and is expensed as the services are rendered by the employees.

DERIVATIVE FINANCIAL INSTRUMENTS

The Partnership uses derivative financial instruments to reduce or eliminate the risk inherent in certain transactions and identifiable balances that arise in the normal course of business. These inherent risks arise from fluctuations in natural gas prices, and interest and exchange rates. Accordingly, the Partnership uses derivative financial instruments to ensure that unfavourable variations in cash flows as a result of such transactions and balances are offset by fluctuations in the cash flows of the derivative financial instruments. The Partnership does not hold or use derivative financial instruments for speculative purposes.

The Partnership uses derivative financial instruments to manage its exposure to the volatility of natural gas prices for its system gas customers. The prices paid are based on monthly floating indices. The instruments used make it possible to fix, or define, the price of natural gas based on temporal, volumetric and financial limits approved by the Régie for the activities of GMCLP-QDA, or by management for other activities. The gains or losses on these instruments are included in gas supply costs as these costs are recognized. In addition, in the case of GMCLP-QDA, these costs are reimbursed or recovered through the gas supply rate in accordance with the method approved by the Régie.

The Partnership uses interest rate swaps to fix interest rates on a portion of variable rate borrowings. This results in the periodic swap of interest payments without any swap of the notional amount on which the payments are based and are recorded as an adjustment of interest receivable on the hedged borrowing instrument. The corresponding amount of interest payable to or receivable from counterparties is periodically included as an adjustment of accrued interest.

The Partnership also uses swaps and currency swaps to manage its exchange risk exposure with respect to certain foreign currency debts or to protect cash flows in a foreign currency other than the measurement currency. The gains and losses attributable to these financial instruments are deferred and recognized in income under the revenue and expense items relating to the corresponding positions covered for the hedge period of the items covered.

If the contracts are cancelled before the date initially designated, the gain or loss is recognized as a deferred gain or loss and recognized over the same period as the item originally covered. All of the aforementioned financial instruments are recorded at cost.

UNIT OPTION PLAN

GMCLP offers a unit option plan to named executives. As of October 1, 2002, the Partnership records attributions using the fair value method whereby the compensation cost is measured at the date of attribution based on its fair value and is expensed over the period of service.

INCOME PER UNIT

Income per unit is calculated on the basis of the weighted average number of outstanding units each year. The treasury stock method is used to determine the dilutive effect of outstanding unit options.

2. CHANGES IN ACCOUNTING POLICIES

APPLIED IN 2003

A) STOCKED-BASED COMPENSATION AND OTHER STOCK-BASED PAYMENTS

On October 1, 2002, the Partnership adopted the new recommendations of the CICA in Section 3870 of the CICA Handbook (hereinafter "Handbook"), *Stock-based Compensation and Other Stock-based Payments*. Among other things, the Section establishes the recognition, measurement and reporting standards for stock-based compensation and other stock-based payments. It recommends a recognition method based on fair value under which the compensation cost should be measured at the date of attribution based on its fair value and should be recognized over the period of service. The adoption of these recommendations did not have any impact on the financial statements of the Partnership.

B) DISPOSAL OF LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS

On May 1, 2003, the Partnership adopted the new CICA recommendations in Section 3475 of the Handbook, *Disposal of Long-lived Assets and Discontinued Operations*. Among other things, this Section establishes the recognition, measurement and disclosure standards for the presentation of information on the disposal of long-lived assets. The recommendations require a long-lived asset classified as held for sale to be valued at the lesser of its carrying amount or its fair value, net of selling costs. They also require that such assets not be depreciated. Depreciation estimates for long-lived assets to be disposed of other than by sale, i.e. abandoned, before the end of their previously estimated useful life should be revised based on their shortened useful life. The standard also requires the results of operations of a component of an enterprise that has been disposed of (by sale, abandonment or spin-off) to be reported in discontinued operations. The Section also specifies the treatment for regulated activities, which corresponds to GMCLP's treatment of the activities of GMCLP-QDA. The adoption of these recommendations did not have any impact on the financial statements of GMCLP.

C) DISCLOSURE OF GUARANTEES

In February 2003, the Partnership adopted new Accounting Guideline AcG-14, Disclosure of Guarantees, dealing with the presentation requirements for guarantees. AcG-14 requires presentation of significant information on certain types of guarantees that provide for payments for certain types of future events. These recommendations had no impact on the Partnership's financial statements.

APPLIED IN 2002

D) INCOME PER UNIT

On October 1, 2001, the Partnership adopted retroactively the new recommendations of the CICA in Section 3500 of the Handbook, *Earnings per Share*. Based on the new recommendations, the treasury stock (unit redemption) method, rather than the theoretical earnings method, should be used to determine the dilutive effect of outstanding unit options. The adoption of these recommendations has no effect on basic and diluted income per unit of the Partnership.

E) FOREIGN CURRENCY TRANSLATION

On October 1, 2001, the Partnership adopted retroactively the new recommendations of the CICA in Section 1650 of the Handbook, *Foreign Currency Translation*, to discontinue the deferral and amortization of unrealized exchange gains and losses on foreign currency monetary items. Consequently, exchange gains or losses arising from translation are included in income for the year. The impact of these changes on the results of the Partnership was negligible.

F) BUSINESS COMBINATIONS, GOODWILL AND OTHER INTANGIBLE ASSETS

In August 2001, the CICA issued Section 1581 of the Handbook, *Business Combinations*, and Section 3062 of the Handbook, *Goodwill and Other Intangible Assets*. The Partnership adopted the recommendations in these new sections, which are applicable to business combinations subsequent to June 30, 2001. The new standards require business combinations to be recorded using the new purchase method. In addition, intangible assets other than goodwill should be recorded separately if they meet the new criteria in the recommendations.

In addition, Section 3062 of the Handbook requires that goodwill and other tangible assets having an indefinite useful life not be amortized and that other identifiable intangible assets be amortized. Pursuant to these recommendations, GMCLP discontinued amortizing goodwill on October 1, 2001. As recommended, GMCLP performed transitional impairment tests of goodwill as of October 1, 2001, which resulted in the recognition of an impairment loss of $2,919,000. This loss was recorded as a change in accounting policy and applied to reduce opening Partners' equity for the year ending September 30, 2002.

G) TRANSFERS OF RECEIVABLES

On October 1, 2001, the Partnership adopted the new Accounting Guideline AcG-12, *Transfers of Receivables*, which deals with the accounting requirements of the CICA relating to the transfer and servicing of receivables. In accordance with the provisions of AcG-12, the Partnership continued to report on its Agreement for the Acquisition and Transfer of Receivables signed in September 1996 based on preceding accounting instructions until September 30, 2001. On October 1, 2001, the agreement was cancelled and replaced by a new agreement whereby the Partnership transferred trade receivables to a securitization trust. These receivables are recorded as a transfer of receivables as the Partnership transfers control thereof and receives the related cash receipts from the trust. The adoption of these recommendations had no impact on the financial statements of the Partnership.

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF DOLLARS.)

2. CHANGES IN ACCOUNTING POLICIES (CONT'D)

EFFECTIVE IN 2004

H) IMPAIRMENT OF LONG-LIVED ASSETS

In December 2002, the CICA issued Section 3063 of the Handbook, *Impairment of Long-lived Assets*, effective for fiscal years beginning on or after April 1, 2003. Among other things, the Section establishes the recognition, measurement and reporting standards with respect to the impairment of long-lived assets held for use. Pursuant to the recommendations, a loss of value should be recognized when the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The Partnership adopted these recommendations as of October 1, 2003 and does not expect they will have a significant impact on the financial statements because these new recommendations do not apply to the "regulated" activities.

I) HEDGING RELATIONSHIPS

In November 2002, the CICA deferred the effective date of Accounting Guideline AcG-13, *Hedging Relationships*, to years starting on or after July 1, 2003. Among other things, AcG-13 establishes the standards for the identification, designation, documentation and effectiveness of hedging relationships for the purposes of hedge accounting. It also covers the discontinuance of hedge accounting and sets down the requisite conditions. The Partnership has decided to apply the hedge accounting as of October 1, 2003 to all of its financial instruments, except those related to the activities of GMCLP-QDA, for which specific regulatory treatment applies. Where the Partnership uses hedge accounting, every hedging relationship will be subject to a periodic test to reasonably determine whether it will continue to be effective. According to the standards, any derivative instrument that does not meet the hedge accounting conditions will be charged to income at market value.

3. TRADE AND OTHER RECEIVABLES

TRANSFER OF RECEIVABLES

The Partnership signed an agreement for the regular transfer of receivables to a securitization trust. Receivables transferred in excess of amounts received in cash represent the subordinated rights retained by the Partnership that are included in Trade and other receivables in the balance sheet.

The securitization trust has no recourse against the other assets of the Partnership in the event debtors fail to pay amounts owing when they become due. GMCLP retained responsibility for the management, administration and collection of the receivables sold. No asset or liability with respect to the management of the receivables has been recorded given that the monetary benefits that GMCLP derives in this regard is almost equal to the value of the services provided.

The expense recorded in respect of the sale of receivables is $1,954,000 in 2003 and $1,721,000 in 2002.

As at September 30, 2003, the amount of the receivables transferred, net of the subordinated rights retained by the Partnership, amounts to $60,500,000 compared to $47,500,000 as at September 30, 2002. Since October 1, 2001, the maximum authorized is $85,000,000.

The net cash consideration received (paid) relating to the transfer and sale of receivables of $13,000,000 in 2003 and ($15,500,000) in 2002 has been presented as a change in Trade and other receivables in the Consolidated Statement of Cash Flows.

4. PROPERTY, PLANT AND EQUIPMENT

				2003
	Average depreciation rate	Cost	Accumulated depreciation	Net book value
Storage	2.79%	$ 28,103	$ 13,773	$ 14,330
Transportation	3.89%	869,101	382,178	486,923
Distribution	3.07%	2,047,990	703,823	1,344,167
General plant	8.34%	225,580	88,496	137,084
		3,170,774	1,188,270	1,982,504
Government grants	3.53%	(452,964)	(256,667)	(196,297)
		$ 2,717,810	$ 931,603	$ 1,786,207

	Average depreciation rate	Cost	Accumulated depreciation	Net book value
				2002
Storage	3.15%	$ 26,480	$ 13,045	$ 13,435
Transportation	3.88%	845,878	362,688	483,190
Distribution	3.08%	1,998,784	655,367	1,343,417
General plant	7.19%	208,626	87,500	121,126
		3,079,768	1,118,600	1,961,168
Government grants	3.53%	(443,494)	(241,004)	(202,490)
		$ 2,636,274	$ 877,596	$1,758,678

Depreciation is $84,468,000 in 2003 and $88,677,000 in 2002.

5. DEFERRED CHARGES

	2003	2002
Natural gas conversion grants	**$ 62,592**	$ 61,661
Costs related to infrastructure projects	**3,850**	7,699
Development of information technology	**59,700**	49,585
Financing costs	**15,107**	7,604
Expenses related to natural gas costs	**71,191**	26,937
Rate stabilization accounts	**76,169**	105,621
GMCLP-QDA overearnings (customer share)	**(20,017)**	(12,731)
Other	**11,938**	15,613
	$ 280,530	$261,989

Amortization of deferred charges is $47,431,000 in 2003 and $46,534,000 in 2002, and the amortization of financing costs included in interest on long-term debt is $2,939,000 in 2003 and $1,136,000 in 2002. The reduction in deferred charges related to natural gas costs, including transportation and storage, is $49,291,000 in 2003 and $45,801,000 in 2002.

6. INVESTMENTS AND OTHER

	2003	2002
Cable VDN Inc.		
Common shares, 20.57% in 2003, 14.02% in 2002	**$ 4,565**	$ 2,565
Convertible debentures[1]	**13,000**	13,000
Preferred shares of Gaz Métropolitain Plus, Inc., a subsidiary of Gaz Métropolitain, inc. (Note 9i)	**7,396**	7,396
Grants receivable, without any terms of repayment	**7,469**	–
Other	**–**	1,088
	$ 32,430	$ 24,049

(1) These debentures are convertible into common shares at prices varying between $1.40 and $1.60 until July 2007 and, effective October 31, 2002, have been none-interest bearing.

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF DOLLARS.)

7. INTEREST IN JOINT VENTURES

	2003	2002
OWNED BY GMCLP		
TQM PipeLine and Company, Limited Partnership (hereinafter "TQM"):	50.0%	50.0%
TQM Services, Inc.[1]:	50.0%	–
Aqua-Rehab Group Inc.:	50.0%	50.0%
Sofame Technologies Inc.:	37.3%	37.3%
3632491 Canada inc. (sole shareholder of Aqua Data Inc. and Stelem Inc.)[2]:	–	50.0%
TelDig Systems Inc.:	50.0%	50.0%
OWNED THROUGH SUBSIDIARIES		
Portland Natural Gas Transmission System (hereinafter "PNGTS")[3]:	26.9%	20.7%

GMCLP's share of the consolidated financial statement components of the joint ventures is as follows:

	2003	2002
INCOME		
Revenues	$ 70,331	$ 71,091
Expenses	51,445	60,280
Net income	$ 18,886	$ 10,811
BALANCE SHEET		
Current assets	$ 15,285	$ 26,164
Long-term assets	422,697	398,753
Current liabilities	(14,302)	(57,867)
Long-term liabilities	(281,780)	(226,742)
Net assets	$ 141,900	$ 140,308
CASH FLOWS RELATED TO:		
Operating activities	$ 34,172	$ 16,256
Investing activities	(15,174)	(4,073)
Financing activities	(18,013)	(14,686)
Increase (decrease) in cash and cash equivalents	$ 985	$ (2,503)

(1) Since November 19, 2002, GMCLP owns 50% of TQM Services, Inc.
(2) Since May 30, 2003, 3632491 Canada inc. is wholly-owned by GMCLP.
(3) On September 30, 2003, GMCLP increased its interest in PNGTS from 20.7% to 26.9% (Note 19d).

8. BANK BORROWINGS

Borrowings under short-term credit lines of GMCLP and its TQM joint venture are unsecured and bear interest at a rate of 2.90% and 4.50% respectively as at September 30, 2003, and 2002. The maximum authorized amounts for these borrowings are $143,000,000 for GMCLP ($193,000,000 in 2002) and $10,000,000 for its share in TQM ($25,000,000 in 2002). The credit lines of GMCLP and TQM are renewable in March and June 2004 respectively.

As at September 30, 2003 and 2002, borrowings under the short-term credit lines of Vermont Gas Systems (hereinafter "VGS"), a wholly-owned subsidiary of Northern New England Gas Corporation (hereinafter "NNEG"), bear interest at the rate of 1.39% and 1.85% respectively. The maximum authorized loan of $30,373,000 (US$22,500,000) for VGS is unsecured. VGS' credit lines are renewable in 2004 and 2007.

Under the terms of the various short-term credit lines, the Partnership and certain subsidiaries and joint ventures have to comply with certain covenants concerning financial ratios and other conditions at all times.

9. LONG-TERM DEBT

	Interest rate	Year of maturity	2003	2002
GMCLP (a)				
First mortgage bonds				
Series	11.75%	2006	$ 33,000	$ 36,000
Series	10.75%	2007	75,000	75,000
Series "D" (b)	10.45%	2017	125,000	125,000
Series "E" (b)	9.00%	2025	100,000	100,000
Series "F" (b)	7.20%	2028	50,000	50,000
Series "H" (b)	6.05%	2009	100,000	100,000
Series "H" (b)	6.95%	2010	100,000	100,000
Series "I" (b)	7.05%	2031	125,000	125,000
			708,000	711,000
Term loan (c)	2.96%	2005	255,812	216,447
Other (5.74% in 2002)	3.38%	2006	2,538	1,181
			966,350	928,628
NNEG				
Unsecured preferred note of VGS (US$10,000 in 2003 and 2002)	7.62%	2028	13,499	15,872
Secured term note of PNGTS (US$73,317) (d)	5.90%	2019	98,971	–
PNGTS term loan (e) (US$52,910 in 2002)			–	83,979
			112,470	99,851
TQM				
First mortgage bonds (f)				
Series "G"	8.51%	2005	42,500	42,500
Series "H"	6.50%	2009	50,000	50,000
Series "I"	7.05%	2010	50,000	50,000
			142,500	142,500
Term loan (3.16% in 2002) (g)	3.54%	2006	35,300	40,350
			177,800	182,850
OTHER				
Non-recourse term loan and other (3.59% in 2002) (h)	3.75%	2004 and 2006	24,636	22,416
Preferred units (i)			7,366	7,366
			32,002	29,782
			1,288,622	1,241,111
CURRENT PORTIONS			16,738	44,351
			$1,271,884	$1,196,760

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF DOLLARS.)

9. LONG-TERM DEBT (CONT'D)

ANNUAL CAPITAL REPAYMENTS:

Annual capital repayments required during the next five years to meet maturities and sinking fund requirements, excluding redemptions before maturity at GMCLP's option are:

2004: $16,738,000	2005: $307,964,000	2006: $82,460,000
2007: $80,624,000	2008: $ 5,585,000	

a) The first mortgage bonds and the term loan are secured under a trust deed which contains a hypothec on the universality of movable property, present and future, of GMCLP situated in the province of Quebec. These loans are also covered by a first immovable hypothec on the GMCLP present and future pipelines and gas system.

b) GMCLP's first mortgage bonds are redeemable at the greater of the face value or the value that reflects market conditions.

c) The term loan makes it possible to use commercial paper, and the agreement allows GMCLP to borrow up to $300,000,000; no repayments are required before the maturity date of April 30, 2005.

d) On April 10, 2003, a 5.90% secured term note, in which the Partnership's interest is $98,971,000 (US$73,317,000) as at September 30, 2003, was issued by PNGTS. Interest and capital repayments extend until December 2018. The note is secured by a direct charge on long-term PNGTS customer contracts and PNGTS units held by the Partnership.

Following the refinancing, PNGTS disposed of interest rate swaps it had concluded in 2002 in anticipation of a refinancing for cash, of which the Partnership's share is $7,585,000 (US$5,619,000) as at September 30, 2003. The cost, which is included in deferred charges, is amortized over the term of the financing. The expense is included in interest on long-term debt.

e) PNGTS' term loan, which was secured by a lien on its main assets, was repaid on April 10, 2003 out of the proceeds from the issuance of the secured note described in note 9 d).

f) TQM's first mortgage bonds are all secured by a fixed, specific first hypothec on the gas pipeline system and on service, transportation and gas sales contracts, and by a hypothec on the business and all other property and assets. Upon reimbursement by TQM of the Series "G" bonds maturing on September 22, 2005, and all series issued after September 30, 2003, if any, the Series "H" and "I" bonds will no longer be secured by these hypothecs.

g) TQM's term loan, originally obtained for its system extension, was refinanced for a three-year period until April 1, 2006, and is secured by hypothecs, as described in note 9 f). The Partnership's interest in the maximum amount of this loan is $37,750,000 as at September 30, 2003, and $40,350,000 as at September 30, 2002.

h) GMCLP's subsidiaries can borrow up to $24,600,000 under term loan agreements, secured by a hypothec on the universality of their movable property and an immovable hypothec of $7,000,000 on an immovable property. For the most part, the term loans are bankers' acceptances. Certain subsidiaries have signed interest rate swaps on $11,500,000 fixing the rate at 2.7% until September 30, 2004.

i) The preferred units, which are held by Gaz Métropolitain Plus, inc., a wholly-owned subsidiary of the parent company, Gaz Métropolitain, inc. (hereinafter "GMi"), are retractable and redeemable and have a non-cumulative return of 6.0%.

j) As at September 30, 2003 and 2002, unregulated activities, both related and unrelated to the energy sector, owned by GMCLP represented 2.3% and 2.0% respectively, of its total non-consolidated assets. GMCLP has undertaken not to increase its interest in such activities above 10.0% of its total non-consolidated assets pursuant to its trust deeds.

k) As at September 30, 2003 and 2002, interest coverage on consolidated long-term debt is respectively 2.88 times and 2.85 times and consolidated tangible net asset coverage on consolidated long-term debt, including current maturities, is respectively 1.66 times and 1.64 times.

10. PARTNERS' EQUITY

AUTHORIZED

Unlimited number of units; each unit is equal in rank with any other unit and is entitled to the same rights, privileges and obligations.

ISSUED AND FULLY PAID

	2003	2002
Number of units as at September 30, (in thousands of units)	113,927	110,469

As at September 30, 2003 and 2002, Consolidated Partners' Equity includes 113,926,612 units and 110,468,612 units issued for $884,893,000 and $818,189,000 respectively.

a) In 2003, GMCLP issued 8,000 units at $15.04 per unit under the unit option plan for cash consideration of $120,000.

b) On September 30, 2003, GMCLP issued 3,450,000 units at $20.30 per unit for cash consideration of $70,035,000 less issue expenses of $3,451,000. GMCLP also gave the underwriters an option to purchase up to 517,500 additional units at the same price of $20.30 per unit. The option was exercised on October 21, 2003 (Note 19b).

c) The agreements relating to the various long-term debt trust deeds provide that GMCLP will not make a distribution to its Partners if long-term debt exceeds 75% of total capitalization. The agreements also provide that GMCLP will not issue any new long-term debt if such debt would exceed 65% of total capitalization. GMCLP is in compliance with these covenants as at September 30, 2003 and 2002.

UNIT OPTION PLAN

The Partnership has reserved 1,000,000 units for a unit option plan for named senior executives. During the year, 8,000 units were issued (Note 10a). Options cannot be exercised before the first anniversary of a grant unless the Board of Directors determines otherwise when an option is granted. Options can be exercised at a cumulative rate of 25% on each of the anniversaries of the grant. Options expire seven years after the grant date.

As at September 30, 2003 and 2002 respectively, there were 96,733 options and 132,440 options outstanding at an average exercise price of $15.20 and $15.17. The remaining weighted average contract term is 4.2 years as at September 30, 2003 and 5.2 years as at September 30, 2002. During the year, 27,707 options were cancelled in respect of employees who left.

Of the total outstanding options, 50,405 options and 33,110 could be exercised as at September 30, 2003 and 2002 respectively at a weighted average price of $15.12 and $15.04.

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF DOLLARS.)

11. CASH FLOWS

a) Change in non-cash working capital items:

	2003	2002
Trade and other receivables	$ (3,963)	$ (735)
Inventories	(35,292)	1,512
Prepaid expenses	1,169	(9)
Accounts payable and accrued liabilities	(12,117)	11,831
	$(50,203)	$12,599

b) Other information:

	2003	2002
Interest received	$ 3,797	$ 3,027
Interest paid	$ 87,543	$86,904

12. RESULTS AND BALANCE SHEET

a) Overearnings from the activities of GMCLP-QDA amount to $13,164,000 for the fiscal year ended September 30, 2003. In accordance with the sharing method established by Decision D-2000-183 dealing with the performance incentive mechanisms, the distributor (GMCLP-QDA) has included in income for the year its $4,388,000 share as incentive income that is subject to the final approval of the Régie following its review of the regulatory report that should be filed in December 2003. Of the balance, $6,173,000 has been included in deferred charges and a contribution de $2,603,000 will be made to the Energy Efficiency Fund.

Following the review of the regulatory report for the year ended September 30, 2002, the Régie approved the overearnings calculation of $27,047,000 and authorized the distributor to retain $9,016,000 as a performance incentive, which was included in income for the 2002 year. Of the balance, $12,724,000 has been included in deferred charges and a contribution of $5,307,000 was made to the Energy Efficiency Fund.

b) For the years ending September 30, 2003 and 2002, annual changes in the rate stabilization accounts represent a decrease of net revenues of $11,680,000 and an increase of $50,491,000 respectively, which are included in the corresponding revenue and interest on long-term debt accounts.

c) For the years ended September 30, 2003 and 2002, the operations and maintenance account includes current income taxes of $2,385,000 and ($2,229,000) and future income taxes of $7,130,000 and $3,925,000 respectively for the subsidiaries and joint ventures.

Net income taxes payable and net future income taxes presented in the balance sheets as at September 30, 2003 and 2002 amount to $4,819,000 and $1,589,000, and $20,953,000 and $10,574,000 respectively.

13. EMPLOYEE FUTURE BENEFITS

The Partnership maintains defined benefit or defined contribution pension plans that cover virtually all of its employees. The defined benefit plans are funded, which ensures that employees will receive a pension determined according to length of service and salaries during their highest earning years.

The Partnership also provides post-employment benefits other than pensions, including supplementary health and dental care and life insurance, for virtually all of its employees, their spouses and qualified dependants. These benefits are not funded.

The following tables describe the Partnership's employee future benefits-related obligations and expenses in accordance with the standards set out in Section 3461 of the Handbook as well as the impact of the unrecorded transitional obligations of GMCLP-QDA:

	2003	2002	2003	2002
	Pension plans	Pension plans	**Other post-employment benefits**	Other post-employment benefits
ACCRUED BENEFIT OBLIGATION				
BALANCE, BEGINNING OF YEAR	**$268,019**	$ 256,324	**$ 28,639**	$ 28,070
Decrease due to change in measurement date[1]	**(2,132)**	–	**(320)**	–
ADJUSTED BEGINNING BALANCE	**265,887**	256,324	**28,319**	28,070
Current service cost	**7,841**	8,691	**903**	994
Interest cost	**17,349**	16,801	**1,843**	1,834
Employee contributions	**2,065**	2,681	**–**	–
Benefits paid and reimbursements	**(15,210)**	(17,780)	**(1,186)**	(1,918)
Plan amendment costs	**128**	1,162	**–**	–
Actuarial loss (gain)	**(10,261)**	91	**280**	(341)
Foreign exchange variations	**(1,398)**	49	**–**	–
BALANCE AS AT MEASUREMENT DATE	**266,401**	268,019	**30,159**	28,639
PLAN ASSETS AT FAIR VALUE				
BALANCE, BEGINNING OF YEAR	**257,465**	268,089	**–**	–
Increase due to change in measurement date[1]	**6,991**	–	**–**	–
ADJUSTED BEGINNING BALANCE	**264,456**	268,089	**–**	–
Actual return on plan assets	**(1,705)**	1,193	**–**	–
Employer contributions	**6,015**	3,252	**–**	–
Employee contributions	**2,065**	2,681	**–**	–
Benefits paid and reimbursements	**(15,210)**	(17,780)	**–**	–
Foreign exchange variations	**(1,022)**	30	**–**	–
BALANCE AS AT MEASUREMENT DATE	**254,599**	257,465	**–**	–
DEFICIENCY OF ASSETS VERSUS OBLIGATIONS	**(11,802)**	(10,554)	**(30,159)**	(28,639)
Unamortized past service costs	**21,462**	23,331	**–**	–
Unamortized net actuarial loss (gain)	**56,733**	59,054	**43**	(60)
Unamortized transitional obligations (asset)	**(63,904)**	(69,670)	**18,485**	20,361
ACCRUED BENEFIT ASSET (OBLIGATION) AS AT MEASUREMENT DATE	**2,489**	2,161	**(11,631)**	(8,338)
Employer contributions between measurement date and year end	**1,900**	–	**356**	–
ACCRUED BENEFIT ASSET (OBLIGATION) BASED ON CICA, END OF YEAR	**$ 4,389**	$ 2,161	**$(11,275)**	$ (8,338)
Representing:				
Accrued benefit asset (obligation) of GMCLP-QDA unrecognized	**$ 9,658**	$ 6,716	**$ (9,779)**	$ (6,715)
Accrued benefit obligation recognized	**(5,269)**	(4,555)	**(1,496)**	(1,623)
	$ 4,389	$ 2,161	**$(11,275)**	$ (8,338)

(1) Starting in 2003, the Partnership changed the measurement date from September 30 to June 30, except for NNEG and TQM for which it remained September 30.

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF DOLLARS.)

13. EMPLOYEE FUTURE BENEFITS (CONT'D)

MAIN ACTUARIAL ASSUMPTIONS

	2003	2002	2003	2002
	Pension plans	Pension plans	**Other post-employment benefits**	Other post-employment benefits
Discount rate	**6.50%**	6.50%	**6.50%**	6.50%
Expected long-term rate of return on plan assets	**7.25%**	7.50%	**–**	–
Rate of compensation increase	**3.50%**	3.50%	**3.50%**	3.50%

PARTNERSHIP'S NET EMPLOYEE FUTURE BENEFIT EXPENSE IS AS FOLLOWS:

	2003	2002	2003	2002
	Pension plans	Pension plans	**Other post-employment benefits**	Other post-employment benefits
Current service cost	**$ 7,841**	$ 8,691	**$ 903**	$ 994
Interest cost	**17,349**	16,801	**1,843**	1,834
Expected return on plan assets	**(18,892)**	(19,651)	**–**	–
Amortization of past service costs	**1,986**	2,004	**–**	–
Amortization of net actuarial losses (gains)	**2,337**	1,061	**(143)**	(17)
Amortization of transitional obligation (asset)	**(5,768)**	(5,783)	**1,876**	1,852
Net employee future benefit expense based on CICA	**$ 4,853**	$ 3,123	**$ 4,479**	$ 4,663
Representing:				
Unrecognized expense (revenue) of GMCLP-QDA	**$ (3,048)**	$ (897)	**$ 3,309**	$ 3,705
Net expense recognized	**7,901**	4,020	**1,170**	958
	$ 4,853	$ 3,123	**$ 4,479**	$ 4,663

GMCLP-QDA's employee future benefits expense on a cash basis for pension plans is $6,534,000 in 2003 and $2,663,000 in 2002 and, for other post-employment benefits, is $1,047,000 in 2003 and $822,000 in 2002.

The expense for defined contribution and other plans is $369,000 in 2003 and $395,000 in 2002.

14. REGULATORY AND TAX POSITION

For regulatory purposes for GMCLP-QDA, only current income taxes payable are deemed and taken into account in setting rates. For income tax purposes, GMCLP has claimed capital cost allowance and certain other deductions relating to deferred charges that have the effect of reducing Partners' income for tax purposes, thereby deferring to future years income taxes otherwise payable by the Partners.

The amount of these future income taxes, and the taxes related to GMCLP's ownership interest in TQM relating to the regulated activities and not recognized by the Partnership, are calculated in accordance with the tax liability method in Section 3465 of the Handbook. Under this method, future income taxes are determined based on the differences between the accounting and tax bases of assets and liabilities. The future income tax assets and liabilities are calculated at the tax rate for a taxable Canadian corporation that should be in effect during the year in which the temporary differences should be realized or settled.

The net future income tax liability amounts to $117,651,000 as at September 30, 2003, and to $124,435,000 as at September 30, 2002. The reversal of the future income taxes for the year and the future income taxes receivable arising as a result of non-deductible provisions for the year, amounts to $6,784,000 as at September 30, 2003 and to $8,241,000 as at September 30, 2002.

15. SEGMENTED DATA

The business sectors presented are segmented in line with the way management organizes the various segments within the Partnership for the purposes of operational decision-making and performance assessment.

GMCLP has the three following reportable segments:

DISTRIBUTION: Delivers natural gas to users;
TRANSPORTATION: Transports natural gas, generally from the producers to the distributor;
ENERGY SERVICE AND OTHER: Includes unregulated activities of energy and technology services, sale, leasing, financing and maintenance of gas appliances, and water and waste water system diagnoses and repairs.

The accounting policies for these segments are the same as those described in note 1. The Partnership assesses performance based on operating income before income taxes.

The Partnership records inter-segment sales and transfers as though they were made to a third party, i.e. at market value.

					2003
	Distribution	Transportation	Energy services and Other	Non-allocated expenses and eliminations	Total
Customer revenues	$1,633,641	$ 63,018	$ 53,753	$ –	$1,750,412
Inter-segment revenues	991	583	5,914	(7,488)	–
Interest income (a)	5,632	–	1,272	(779)	6,125
Total revenues	1,640,264	63,601	60,939	(8,267)	1,756,537
Direct costs	1,154,526	–	39,618	(6,432)	1,187,712
Gross margin	485,738	63,601	21,321	(1,835)	568,825
Operations and maintenance expenses	160,367	17,606	15,809	(180)	193,602
Earnings before interest, depreciation and amortization (EBIDA)	325,371	45,995	5,512	(1,655)	375,223
Depreciation and amortization	119,006	9,994	2,899	–	131,899
Interest expense	68,390	19,383	2,784	(560)	89,997
Partners' income	$ 137,975	$ 16,618	$ (171)	$(1,095)	$ 153,327
Assets	$1,903,415	$437,088	$95,252	$(4,556)	$2,431,199
Additions to					
Property, plant and equipment	$ 93,319	$ 4,944	$ 7,396	$ –	$ 105,659
Deferred charges	118,810	10,282	645	–	129,737
	$ 212,129	$ 15,226	$ 8,041	$ –	$ 235,396
Goodwill					
Balance, beginning	$ 9,429	$ 7,596	$ 6,038	$ –	$ 23,063
Translation adjustment	(1,410)	–	–	–	(1,410)
Acquisitions	–	–	1,729	–	1,729
Balance, end	$ 8,019	$ 7,596	$ 7,767	$ –	$ 23,382

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF DOLLARS.)

15. SEGMENTED DATA (CONT'D)

					2002
	Distribution	Transportation	Energy services and Other	Non-allocated expenses and eliminations	Total
Customer revenues	$1,487,134	$ 62,135	$ 48,752	$ –	$1,598,021
Inter-segment revenues	1,719	696	5,577	(7,992)	–
Interest income (a)	8,156	–	1,623	(100)	9,679
Total revenues	1,497,009	62,831	55,952	(8,092)	1,607,700
Direct costs	1,020,437	–	37,926	(6,535)	1,051,828
Gross margin	476,572	62,831	18,026	(1,557)	555,872
Operations and maintenance expenses	150,977	13,936	12,496	(740)	176,669
Earnings before interest, depreciation and amortization (EBIDA)	325,595	48,895	5,530	(817)	379,203
Depreciation and amortization	113,655	17,807	3,716	33	135,211
Interest expense	69,870	18,246	1,871	(575)	89,412
Partners' income	$ 142,070	$ 12,842	$ (57)	$ (275)	$ 154,580
Assets	$1,843,714	$ 422,686	$ 80,817	$ (10,060)	$2,337,157
Additions to					
Property, plant and equipment	$ 88,455	$ 2,332	$ 4,168	$ –	$ 94,955
Deferred charges	15,421	(3,442)	8	–	11,987
	$ 103,876	$ (1,110)	$ 4,176	$ –	$ 106,942
Goodwill					
Balance, beginning	$ 9,370	$ 7,596	$ 7,036	$ –	$ 24,002
Impairment loss (Note 2f)	–	–	(2,919)	–	(2,919)
Adjusted balance, beginning	9,370	7,596	4,117	–	21,083
Translation adjustment	59	–	–	–	59
Acquisitions	–	–	1,921	–	1,921
Balance, end	$ 9,429	$ 7,596	$ 6,038	$ –	$ 23,063

Only the Distribution Sector includes significant items other than depreciation and amortization that have no impact on cash flows, i.e. rate stabilization accounts and reduction in deferred charges related to cost of natural gas as specifically shown in the cash flow statement.

a) Distribution Sector interest income arises from, among other things, the capitalized return on assets not included in the rate base in accordance with regulatory provisions.

GEOGRAPHIC INFORMATION

	2003		2002	
	Revenues	Property, plant, equipment and goodwill	Revenues	Property, plant, equipment and goodwill
Canada	$1,641,156	$1,556,967	$1,492,231	$1,543,721
United States	115,381	252,622	115,469	238,020
Total	$1,756,537	$1,809,589	$1,607,700	$1,781,741

16. RELATED PARTIES

During the year, GMCLP concluded the following transactions with related parties in the normal course of business, as authorized by the Régie. The amounts received from or paid to related parties are determined based on contracts between the parties and in which the value of the services rendered has been established at the exchange amount:

	2003	2002
Storage service owned in part by one of the ultimate shareholders of Gaz Métropolitain, inc.	**$15,994**	$14,079

As at September 30, 2003 and 2002, transactions with GMi, and companies owned by its ultimate shareholder represent an amount payable of $3,311,000 and $2,601,000 included in accounts payable and accrued liabilities. Under the partnership agreement, GMCLP pays management fees of $50,000 annually to GMi.

17. FINANCIAL INSTRUMENTS

The fair value of the financial instruments represents the estimated amounts that the Partnership would receive or pay to cancel these financial instruments as at the date of the financial statements.

FINANCIAL INSTRUMENTS INCLUDED IN BALANCE SHEET

Cash, trade and other receivables, bank borrowings as well as accounts payable and accrued liabilities are short-term financial instruments whose fair value approximates the carrying amount given that they will mature shortly.

The fair value of other investments in private companies cannot be easily determined because the securities are not traded.

FAIR VALUE OF LONG-TERM DEBT

The fair value of the long-term debt, including current instalments, is calculated using stock exchange prices at the end of the year or discounted cash flows using interest rates which GMCLP, its subsidiaries and its joint ventures could have obtained as at the balance sheet date for loans with similar terms, conditions and maturity dates.

	2003		2002	
	Carrying amount	**Fair value**	Carrying amount	Fair value
LONG-TERM DEBT				
GMCLP	**$ 966,350**	**$1,101,335**	$ 928,628	$1,049,580
NNEG	**112,470**	**116,599**	99,851	104,391
TQM	**177,800**	**189,542**	182,850	192,022
OTHER	**32,002**	**32,002**	29,782	29,782
	$1,288,622	**$1,439,478**	$1,241,111	$1,375,775

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

The Partnership uses various types of derivative financial instruments to stabilize the cost of gas and swap agreements to hedge against fluctuations in interest and exchange rates. The Partnership obtains an independent valuation of the market value of these financial instruments. The valuation is based on published indices at the closing date, volatility and expiration dates.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS THAT ARE SENSITIVE TO INTEREST RATES

The Partnership uses swaps to fix interest rates on certain long-term debt that has variable interest rates. The fair value payable of these obligations is $18,000 as at September 30, 2003 and $7,104,000 as at September 30, 2002.

(ALL TABULAR AMOUNTS ARE IN THOUSANDS OF DOLLARS.)

17. FINANCIAL INSTRUMENTS (CONT'D)

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS THAT ARE SENSITIVE TO EXCHANGE RATES

The Partnership uses currency swaps maturing in May 2005 to manage a portion of its US dollar gas purchases for GMCLP-QDA and Canadian dollar gas purchases for VGS. The fair value receivable (payable) of these obligations is $2,584,000 as at September 30, 2003 and ($152,000) as at September 30, 2002.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS THAT ARE SENSITIVE TO GAS PRICES

The Partnership uses natural gas derivative financial instruments to manage its exposure to gas price volatility for its system gas customers. The prices paid are based on floating monthly indices. The instruments used make it possible to fix, or define, natural gas prices based on temporal, financial and volumetric limits.

The estimated market value of derivative instruments related to the price of gas fluctuates daily based on the volatility of natural gas prices and the period covered by the instruments.

				2003	2002
				Fair value receivable (payable)	Fair value receivable (payable)
	2004	2005	2006	Maturity Total	2003 to 2005
GAS PRICES					
Contracts:					
"Swaps"	$ (2,301)	$ (5,708)	$ (2,265)	$ (10,274)	$ 807
"Calls"	(22,235)	(8,404)	(606)	(31,245)	(10,938)
"Collars"	–	–	–	–	1,721
"Three-way collars"	2,160	442	24	2,626	5,981
	$ (22,376)	$ (13,670)	$ (2,847)	$ (38,893)	$ (2,429)

				2003	2002
				Thousands of gigajoules	Thousands of gigajoules
	2004	2005	2006	Maturity Total	2003 to 2005
VOLUMES COVERED BY NATURAL GAS CONTRACTS					
"Swaps"	15,531	23,115	7,407	46,053	16,486
"Calls"	42,325	15,101	1,101	58,527	11,580
"Collars"	248	–	–	248	4,128
"Three-way collars"	14,388	3,512	217	18,117	38,769
	72,492	41,728	8,725	122,945	70,963

CREDIT RISK

The Partnership is exposed to the credit risk of its derivative financial instrument counterparties that do not meet their obligations. To minimize this risk, the Partnership only concludes off-balance sheet hedge transactions with major financial institutions that meet its credit evaluation standards.

As at September 30, 2003, the Partnership is not planning to cancel any financial instruments before the maturity date.

Management considers that these derivative financial instruments do not present any unusual risk and does not expect any significant gain or loss as a result of these transactions.

18. COMMITMENTS AND CONTINGENCIES

a) In the normal course of business, the Partnership signed supply, transportation and storage contracts for periods up to March 2013. The costs relating to these contracts will be included in rates in the corresponding periods.

b) GMCLP is cited in claims and lawsuits in the normal course of its activities. In the opinion of management, these claims and lawsuits are, for the most part, covered by appropriate insurance coverage and the overall amount of the contingent liability relating to these claims and lawsuits is not material.

c) The NNEG subsidiary has been cited in a lawsuit, jointly with others, following the discovery of polluting substances on land it once owned for a brief period of time during the 1960s. The investigation by the U.S. Environmental Protection Agency has not been completed and NNEG is unable to predict the outcome of the lawsuit at this time. In the event a claim arises, an application will be filed with the Vermont Public Service Board to seek recovery through the rates of VGS. Moreover, an agreement was reached, in 1994, between NNEG and a third party limiting the maximum amount payable by NNEG. In the opinion of management, any costs resulting from this claim would not be significant for the Partnership.

d) Upon completion of the construction of the TQM pipeline extension to the U.S. border, the project manager of the construction work lodged a claim against TQM for reimbursement of the contractor's cost overruns. This claim is presently under arbitration to determine the merits and the quantum of the claim. The contractor also registered a legal hypothec on TQM's pipeline, the result of which depends on the merits of the claim and the non-payment of the debt by TQM, which is unlikely. GMCLP does not expect the arbitrator's decision will have a significant financial impact on the pipeline's profitability or on the Partnership's overall financial situation.

19. SUBSEQUENT EVENTS

a) Distributions totalling $37,562,000 or $0.34 per unit were paid on October 1, 2003 to Partners of record as of September 15, 2003.

b) On October 21, 2003, the underwriters exercised their option with respect to the issue on September 30, 2003. Accordingly, GMCLP issued 517,500 additional units at $20.30 per unit for consideration of $10,505,000 less issue expenses of $473,000.

c) On October 31, 2003, GMi, in its capacity as General Partner of GMCLP, issued $125,000,000 of 6.30% first mortgage bonds maturing on October 31, 2033. GMi lent the proceeds of the issue to GMCLP on the same terms and conditions with respect to the interest rate and maturity. The net proceeds of the issue will be added to GMCLP's working capital and used to repay a portion of the commercial paper under the renewable credit line (Note 9).

d) On November 17, 2003, the Partnership exercised its right of first offer and announced its intention to increase its ownership interest in PNGTS from 26.9% to 38.3% for cash consideration of $26,838,000 (US$19,881,000).

e) On November 18, 2003, the name Gaz Métropolitain and Company Limited Partnership was changed to Gaz Métro Limited Partnership.

20. COMPARATIVE DATA

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current year.

QUARTERLY CONSOLIDATED FINANCIAL INFORMATION [1] [2]

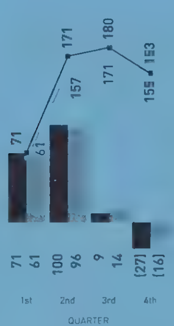
Years ended September 30, (in thousands of dollars)

2003	1st	2nd	3rd	4th	Year
Revenues	$501,646	$703,653	$335,138	$216,100	$1,756,537
Gross margin	$171,681	$206,657	$111,131	$ 79,356	$ 568,825
Partners' income	$ 70,762	$100,117	$ 9,068	$ (26,620)	$ 153,327
Diluted and basic Partners' income per unit (in dollars)	$ 0.64	$ 0.91	$ 0.08	$ (0.24)	$ 1.39
Distributions paid per unit (in dollars)	$ 0.32	$ 0.34	$ 0.34	$ 0.34	$ 1.34
Partners' equity per unit (in dollars)	$ 7.76	$ 8.25	$ 7.91	$ 7.69	$ 7.69
Market prices on Toronto Stock exchange (in dollars):					
High	$ 19.05	$ 19.05	$ 19.70	$ 20.86	$ 20.86
Low	$ 17.50	$ 17.94	$ 17.95	$ 17.50	$ 17.50
Close	$ 18.95	$ 18.04	$ 19.56	$ 20.28	$ 20.28
Number of units oustanding (in millions)	110.5	110.5	110.5	113.9	113.9

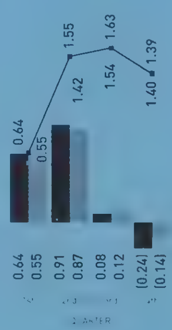
2002	1st	2nd	3rd	4th	Year
Revenues	$484,318	$601,417	$310,523	$211,442	$1,607,700
Gross margin	$161,283	$198,904	$116,345	$ 79,340	$ 555,872
Partners' income	$ 60,697	$ 96,369	$ 13,538	$ (16,024)	$ 154,580
Diluted and basic Partners' income per unit (in dollars)	$ 0.55	$ 0.87	$ 0.12	$ (0.14)	$ 1.40
Distributions paid per unit (in dollars)	$ 0.32	$ 0.32	$ 0.32	$ 0.32	$ 1.28
Partners' equity per unit (in dollars)	$ 7.56	$ 8.11	$ 7.87	$ 7.45	$ 7.45
Market prices on Toronto Stock exchange (in dollars):					
High	$ 18.00	$ 17.99	$ 17.98	$ 18.32	$ 18.32
Low	$ 16.50	$ 17.05	$ 16.28	$ 17.50	$ 16.28
Close	$ 17.60	$ 17.23	$ 17.71	$ 18.10	$ 18.10
Number of units oustanding (in millions)	110.5	110.5	110.5	110.5	110.5

(1) Unaudited quarterly data.
(2) Seasonal temperature fluctuations affect GMCLP's quarterly financial results, as the following charts show.

PARTNERS' INCOME
[IN MILLIONS OF DOLLARS]
2003
2002
YTD 2003
YTD 2002



PARTNERS' INCOME PER UNIT
[IN DOLLARS]
2003
2002
YTD 2003
YTD 2002



FIVE-YEAR REVIEW – CONSOLIDATED OPERATING DATA[1]

Years ended September 30,

	2003	2002	2001	2000	1999
NORMALIZED VOLUME (10^6m^3)[2]					
DISTRIBUTION					
Industrial					
Firm service	**2,224**	2,194	2,182	2,377	2,372
Interruptible service	**847**	1,072	841	1,414	1,354
Commercial	**1,905**	1,916	1,910	1,986	1,883
Residential	**741**	739	743	782	759
Total (10^6m^3)	**5,717**	5,921	5,676	6,559	6,368
Total (Bcf)	**202**	209	200	232	225
NATURAL GAS DELIVERIES (10^6m^3)					
DISTRIBUTION					
Total (10^6m^3)	**5,728**	5,680	5,639	6,348	6,123
Total (Bcf)	**202**	200	199	224	216
TRANSPORTATION[3][4]					
Total (10^6m^3)	**6,321**	6,439	6,023	5,855	3,928
Total (Bcf)	**223**	227	213	207	139
CUSTOMERS (DISTRIBUTION)					
Industrial	**2,280**	2,173	2,109	2,038	2,095
Commercial	**47,254**	46,655	45,860	45,307	43,826
Residential	**139,182**	137,972	136,520	136,117	133,734
Total	**188,716**	186,800	184,489	183,462	179,655
SYSTEM DATA					
Length of pipelines (in km)					
DISTRIBUTION					
Canada	**9,318**	9,166	8,999	8,775	8,493
United States	**935**	895	853	828	815
Total	**10,253**	10,061	9,852	9,603	9,308
TRANSPORTATION[4]					
Canada	**670**	670	670	670	670
United States	**489**	489	489	489	474
Total	**1,159**	1,159	1,159	1,159	1,144
Gross property, plant and equipment (in millions of dollars)	**2,718**	2,636	2,556	2,477	2,396
Net property, plant and equipment (in millions of dollars)	**1,786**	1,759	1,751	1,741	1,727
Additions to property, plant, equipment and deferred charges (in millions of dollars)	**235**	107	253	139	235
NUMBER OF EMPLOYEES[4]					
DISTRIBUTION					
GMCLP	**1,256**	1,194	1,182	1,300	1,292
NNEG	**112**	112	108	147	144
	1,368	1,306	1,290	1,447	1,436
TRANSPORTATION					
TQM	**5**	60	60	70	66
PNGTS	**32**	32	31	29	29
	37	92	91	99	95
ENERGY SERVICES AND OTHER					
AQUA DATA	**81**	63	61	57	59
AQUA-REHAB	**51**	32	33	29	40
CCUM	**18**	19	16	24	21
CONSULGAZ	**2**	6	3	4	3
GAZ MÉTROPOLITAIN PLUS	**106**	102	92	89	26
OPTION GAZ	**10**	18	17	18	–
SERVITECH COMBUSTION	**56**	70	–	–	–
SOFAME	**10**	18	18	22	23
SOGENER	**2**	15	14	11	5
TELDIG	**13**	12	12	8	8
	349	355	266	262	185

(1) Unaudited data.
(2) Normalized volumes based on normal temperature for natural gas distribution in Quebec.
(3) Includes volumes transported and delivered by TQM to the distribution sector (GMCLP) and PNGTS.
(4) Data not adjusted for GMCLP's percentage interest in the subsidiaries and joint ventures.

Years ended September 30, (in thousands of dollars)

	2003	2002	2001
SUMMARY OF RESULTS			
Revenues	$1,756,537	$1,607,700	$2,069,977
Direct costs	1,187,712	1,051,828	1,532,916
Gross margin	568,825	555,872	537,061
Operations and maintenance[1]	193,602	176,669	167,500
Operating income before depreciation and amortization	375,223	379,203	369,561
Depreciation and amortization	131,899	135,211	127,111
Operating income	243,324	243,992	242,450
Financial expense	89,997	89,412	101,286
PARTNERS' INCOME	$ 153,327	$ 154,580	$ 141,164
CASH FLOWS			
Operating activities (including working capital)	$ 298,933	$ 298,836	$ 323,018
Investing activities	(260,974)	(111,332)	(257,893)
Financing activities:			
Distributions paid to Partners	(148,036)	(141,400)	(140,295)
Other financing activities	109,199	(39,172)	74,797
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ (878)	$ 6,932	$ (373)
PER UNIT DATA			
Partners' income (in dollars)	$ 1.39	$ 1.40	$ 1.28
Distribution paid (in dollars)	$ 1.34	$ 1.28	$ 1.27
Partners' equity (in dollars)	$ 7.69	$ 7.45	$ 7.35
Basic weighted average number of units outstanding (in thousands)	110,475	110,469	110,469
Number of units outstanding as at September 30 (in thousands)	113,927	110,469	110,469
FINANCIAL STRUCTURE			
Debt maturing within one year	$ 16,738	$ 44,351	$ 3,099
Long-term debt	1,271,884	1,196,760	1,267,225
Total debt	1,288,622	1,241,111	1,270,324
Partners' equity	876,004	822,655	811,845
TOTAL	$2,164,626	$2,063,766	$2,082,169
TOTAL DEBT / TOTAL CAPITALIZATION	59.5%	60.1%	61.0%
INTEREST COVERAGE RATIO ON CONSOLIDATED LONG-TERM DEBT	2.9	2.8	2.5
TOTAL ASSETS	$2,431,199	$2,337,157	$2,349,696
FINANCIAL INFORMATION RELATED TO DETERMINATION OF RATE OF RETURN OF GMCLP-QDA BY THE RÉGIE DE L'ÉNERGIE[2][3]			
Rate base[4]	$1,566,707	$1,545,557	$1,545,839
Deemed common equity[4]	38.50%	38.50%	38.50%
Authorized rate of return on deemed common equity	10.34%	9.69%	10.38%
Deemed prefered equity[4]	7.50%	7.50%	7.17%
Authorized rate of return on deemed prefered equity	4.59%	4.54%	5.37%
Deemed tax expenses	$ 58,482	$ 61,787	$ 60,350

(1) Includes development activities.
(2) Unaudited data.
(3) As noted under the accounting policies in the consolidated financial statements of GMCLP-QDA under Regulation.
(4) Calculated on a monthly average based on capitalization that differs from the financial structure as recorded in the balance sheet of GMCLP due to the inclusion of short-term financing, securitization of trade receivables and other items.

2000	1999	1998	1997	1996	1995	1994
$1,633,736	$1,339,022	$1,216,923	$1,197,742	$1 117,600	$1,088,164	$1,221,470
1,100,310	841,367	736,063	722,052	643,278	628,196	788,566
533,426	497,655	480,860	475,690	474,322	459,968	432,904
176,109	164,556	159,246	158,369	145,171	149,464	144,492
357,317	333,099	321,614	317,321	329,151	310,504	288,412
120,797	106,834	100,788	92,358	87,634	82,006	78,366
236,520	226,265	220,826	224,963	241,517	228,498	210,046
92,798	90,493	80,080	86,256	95,689	93,490	86,433
$ 143,722	$ 135,772	$ 140,746	$ 138,707	$ 145,828	$ 135,008	$ 123,613
$ 190,003	$ 246,539	$ 231,691	$ 246,294	$ 298,436	$ 253,324	$ 225,667
(142,657)	(242,372)	(265,771)	(118,823)	(145,530)	(241,226)	(244,029)
(136,981)	(134,748)	(138,459)	(142,200)	(141,666)	(132,893)	(120,931)
84,513	111,620	198,432	17,000	(18,240)	120,489	136,929
$ (5,122)	$ (18 961)	$ 25,893	$ 2,271	$ (7,000)	$ (306)	$ (2,364)
$ 1.30	$ 1,25	$ 1.32	$ 1.30	$ 1.36	$ 1.30	$ 1.24
$ 1.24	$ 1,25	$ 1.30	$ 1.33	$ 1.33	$ 1.34	$ 1.17
$ 7.30	$ 7,21	$ 6.93	$ 6.85	$ 6.87	$ 6.83	$ 6.50
110,469	108,671	106,918	106,918	106,918	104,215	99,350
110,469	110,469	106,918	106,918	106,918	106,918	100,708
$ 3,722	$ 11,321	$ 10,053	$ 26,023	$ 12,071	$ 81,300	$ 56,220
1,189,766	1,082,376	1,034,770	819,829	841,934	767,467	738,961
1,193,488	1,093,697	1,044,823	845,852	854,005	848,767	795,181
805,960	796,823	740,943	732,148	734,903	730,329	654,415
$1,999,448	$1,890,520	$1,785,766	$1,578,000	$1,588,908	$1,579,096	$1,449,596
59.7%	57.9%	58.5%	53.6%	53.7%	53.8%	54.9%
2.7	2.6	2.9	2.7	2.7	2.5	2.5
$2,262,939	$2,137,998	$2,017,255	$1,775,254	$1,749,361	$1,760,611	$1,647,436
$1,486,889	$1,413,245	$1 397 303	$1,352,240	$1,340,108	$1,318,244	$1,228,911
38.50%	38.50%	38.53%	39.39%	38.14%	37.99%	38.26%
9.72%	9.64%	10.75%	11.50%	12.00%	12.00%	12.00%
7.45%	7.50%	7.50%	7.64%	7.60%	7.40%	7.33%
5.61%	5.88%	5.63%	5.36%	6.43%	6.74%	5.80%
$ 63,890	$ 55,716	$ 56,817	$ 56,954	$ 59,100	$ 45,322	$ 47,776

Gaz Métro inc. (the "Company") is essentially devoted to managing the affairs of Gaz Métro and Company, Limited Partnership (the "Partnership") as its General Partner. The terms "Company" and "Partnership" are used interchangeably hereinafter. As part of this responsibility, and in accordance with the requirements of the Toronto Stock Exchange on which the Partnership's units are traded, that the Board of Directors summarizes in the following text its corporate governance policies and practices in relation to the Stock Exchange guidelines (summarized below and shown in bold). This statement, which was revised on November 19, 2003, satisfies the Stock Exchange guidelines.

The Company, which holds 74.7% of the units of the Partnership, is a wholly-owned subsidiary of Noverco Inc., a private company whose main shareholders are Hydro-Québec, Enbridge and Gaz de France.

1. The board of directors of every corporation should explicitly assume responsibility for the stewardship of the corporation. The Board is responsible for supervising the management of the business of the Partnership with the objective of ensuring that its resources and potential are used and exploited in such a way as to create value for the Partners, in accordance with applicable laws, standards and social responsibility. This growth objective includes protecting the value of the business against the main risks it faces.

In addition to the responsibilities discussed in greater detail below, the Board is also responsible, among other things for the:

- approval of the annual and quarterly financial statements;
- declaration of dividends payable by the Company and income distributions by the Partnership;
- approval of budgets;
- approval of acquisitions or major investments;
- approval of major reorganizations; and
- hiring, compensation and performance appraisals of senior executives.

The Board met eight times during the 2003 year.

More particularly, the board should assume responsibility for:

a) adoption of a strategic planning process. Every two years, a multi-year strategic plan is prepared by management and submitted to the Board for discussion and approval. The plan is monitored periodically by comparing results with the strategies adopted. If appropriate, the strategies are adapted.

b) the identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks. The Board ensures, particularly through its Audit Committee, that management identifies the risks to which the Partnership is exposed and takes the necessary steps to manage such risks if they cannot be eliminated.

c) succession planning, including appointing, training and monitoring senior management. The Human Resources Committee is responsible for reviewing candidates for the position of President and Chief Executive Officer and the senior executive appointments proposed by him/her. This responsibility involves monitoring the performance and development of the incumbents and ensuring that there is an adequate succession plan.

d) a communication policy for the corporation. The Board, in particular the Audit Committee, ensures that the financial information for the Partners and the investing public is complete and objective, and that it is communicated within the timeframe established by the Canadian securities commissions and the Stock Exchange. To discharge this responsibility, the Audit Committee reviews the annual and quarterly reports and related press releases, the annual information form and prospectuses.

Financial information is disclosed through the normal channels and can be found in the "Investors' Sheet" section on the Partnership's Internet site. Any Partner wishing to ask the Partnership for additional information or provide it with comments can contact the Coordinator, Investor Relations; the Treasurer or the Vice President, Finance and Corporate Affairs.

The Board also ensures that management maintains transparent communications with credit rating agencies, financial analysts and other financial market intervenors in order to fairly present the Partnership's situation. A financial information disclosure policy approved by the Board provides management with guidance in this regard.

e) the integrity of the corporation's internal control and management information system. A primary responsibility given to the Audit Committee by the Board is to satisfy itself as to the adequacy of the Partnership' internal controls and the processes for presenting financial information. To discharge this responsibility, the Committee receives periodic reports from the internal and external auditors after it has approved the annual audit plans.

2. The board of directors should be constituted with a majority of individuals who qualify as "unrelated directors". With the exception of the President and Chief Executive Officer, all of the directors are "unrelated", i.e. they are independent of management and are free from any interest or other relationship, other than a shareholder relationship, which could materially interfere with their ability to act in the best interests of the Partnership.

3. The application of the definition of "unrelated director" to the circumstances of each individual director should be the responsibility of the board, which will be required to disclose on an annual basis whether the board has a majority of unrelated directors. The Corporate Governance Committee, which is composed of unrelated outside directors, is responsible for reviewing the composition of the Board based on the definition of unrelated director. This enables the Board to ensure that it satisfies the requirements of Guideline 2.

4. The board should appoint a committee of directors composed exclusively of outside directors, a majority of whom are unrelated directors, with the responsibility for proposing to the full board new nominees to the board and for assessing directors on an ongoing basis. Directors are appointed either directly by the sole shareholder, or by the Board with the consent of the sole shareholder if a vacancy arises between two annual meetings. The Corporate Governance Committee reviews the composition of the Board and provides the sole shareholder with its opinion on candidates proposed by the sole shareholder or on individuals who should be considered in the Committee's view.

From time to time, the Chairman of the Board, who also chairs the Corporate Governance Committee, discusses the individual contribution of directors with the President and Chief Executive Officer.

During the past fiscal year, director attendance at Board and committee meetings was 87.8%, i.e. 180 attendances out of a potential 205 for 29 meetings.

5. The board should implement a process to be carried out by the nominating committee or other appropriate committee for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors. The Board has delegated to the Corporate Governance Committee the responsibility for reviewing the methods used by the Board and its Committees for overseeing the affairs of the Company, assessing the effectiveness of the Board and its Committees in this regard and making recommendations to the Board for any improvements that could be made to corporate governance practices. To discharge this responsibility, the Committee sends self-assessment questionnaires to directors and committee members concerning their performance with respect to corporate governance matters. Directors are also asked for their comments and suggestions and for their opinions about the performance of the Chairman of the Board. The results are communicated to all of the Directors, reviewed by each committee as well as the Board, which is provided with comments and recommendations by the Corporate Governance Committee. This process is carried out every two years.

6. Every corporation should provide an orientation and education program for new recruits to the board. Every new director is provided with a manual that includes a description of the Company and the Partnership, a summary of the duties, obligations and responsibilities of a director as well as a copy of the mandates of the Board and its committees. Every new director is also invited to meet with senior executives in order to acquire an understanding of each sector of activity and to get to know the executives.

In addition, management ensures, by means of Board meeting presentations, that directors are familiar with the business of the Partnership and the industry. Management is also always available to hold information sessions for directors.

7. Every board should examine its size and, with a view to determining the impact of the number upon effectiveness, undertake where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making. The Board is made up of fourteen directors, seven of whom are officers of companies that are shareholders of Noverco. In view of the foregoing and the effort made to have directors who are independent of the sole shareholder, the size of the Board appears appropriate and provides an optimal range of competencies and diverse experience.

The Corporate Governance Committee, through its Chairman, who is also the Chairman of the Board, provides the sole shareholder with his opinion about the number of directors and the composition of the Board.

8. The board should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director. The Corporate Governance Committee periodically reviews director compensation in light of the practices in comparable businesses and makes recommendations to the Board in this regard. (Information about Director compensation is reported in the Company's Annual Information Form in the absence of a Partnership's Information Circular).

Directors who receive director compensation in a personal capacity are currently required to own at least 1,000 units of the Partnership. The Board has increased this minimum to 2,000 units, effective June 1, 2004.

9. Committees of the board of directors should generally be composed of outside directors, a majority of whom are unrelated directors. Except for the Executive Committee, which has the President and Chief Executive Officer as a member, the Board's committees are made up solely of outside unrelated directors.

10. Every board of directors should expressly assume responsibility for, or assign to a committee of directors, the general responsibility for developing the corporation's approach to governance issues. This committee would, amongs other things, be responsible for the corporation's response to these governance guidelines. The Corporate Governance Committee is responsible for reviewing practices followed by the Board and its committees in overseeing the management of the Company's affairs, assessing Board effectiveness in this regard and making recommendations to the Board for improvements to corporate governance practices. The Committee met three times during the 2003 year.

11. a) The board of directors, together with the CEO, should develop position descriptions for the board and the CEO, involving the limits to management's responsibilities. The Board adopted a written mandate which sets forth the responsibilities it reserves to itself as well as the main responsibilities delegated to the President and Chief Executive Officer. In addition, the Board has approved a written mandate for each of its committees. These mandates are part of the Directors' Manual.

The mandates of the Corporate Governance Committee and the Audit Committee are set out in the comments on the policies and practices with respect to the Guidelines. The mandates of the other committees can be summarized as follows:

The Executive Committee exercises all of the powers of the Board, subject to restrictions imposed by law or by the Board from time to time. There were no meetings of the Executive Committee during 2003.

The Human Resources Committee reviews all human resources matters for which the Board is responsible and makes the financial decision with respect to certain of these matters. The Committee met seven times during the 2003 year. (The Committee's report on senior executive compensation is published in the Company's Annual Information Form in the absence of a Partnership's Information Circular).

The Pension Fund Committee has a twofold mandate. It oversees pension fund management, which is looked after by the pension committees created by law. These committees have delegated their responsibilities with respect to the investment policy of the pension fund to the Committee as well as the selection and monitoring of fund managers. The Committee met five times during the 2003 year.

b) The board should approve or develop the corporate objectives which the CEO is responsible for meeting. Every year, the Human Resources Committee reviews the performance of the Partnership and the President and Chief Executive Officer in terms of the annual and multi-year corporate and personal objectives agreed upon between him, the Committee and the Board. The results of the Committee's review are communicated to the Board, which also makes an overall assessment of the performance of the Partnership and the President and Chief Executive Officer.

12. a) Every board of directors should have in place appropriate structures and procedures to ensure the board can function independently of management. An appropriate structure would be to: (i) appoint a chair of the board who is not a member of management with responsibility to ensure the board discharges its responsibilities or (ii) adopt alternate means such as assigning this responsibility to a committee of the board or to a director, sometimes referred to as the "lead director". Board independence is ensured by the fact that 13 out of 14 individuals are outside unrelated directors. In addition, the Board is chaired by an outside director and a written description of his responsibilities has been approved by the Board.

b) Appropriate procedures may involve the board meeting on a regular basis without management present or may involve expressly assigning the responsibility for administering the board's relationship to management to a committee of the board. Outside directors hold closed-door sessions from time to time, for example, following the presentation of a strategic plan or a budget.

In order for the Board to discharge its corporate governance responsibilities, the Corporate Governance Committee periodically reviews with management the mandates of the Board and its committees, their responsibilities, the quality of the documentation provided, the organization and frequency of meetings, follow-up of management decisions as well as communications between directors and management.

13. a) The audit committee of every board of directors should be composed only of outside directors. The Audit Committee is composed solely of outside directors. Their professional education and experience provide all of the Committee's members with the necessary qualifications for dealing with financial information. The Chairman of the Committee is a chartered accountant. Another member has an MBA in Finance and is a certified general accountant.

b) The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to audit committee members as to their duties. The audit committee duties should include oversight responsibility for management reporting on internal control. While it is management's responsibility to design and implement an effective system of internal control, it is the responsibility of the audit committee to ensure that management has done so. The Committee is responsible for reviewing the financial information published by the Company and the Partnership, as well as how the risks that may affect the financial well-being of the organization are managed. It shall ensure that:

- there is an adequate risk management program for protecting the organization's assets;
- both the external and internal auditors are independent and that it has approved their audit plans;
- financial information transmitted to directors and the investing public is complete and objective.

The Committee's specific responsibilities are broken down into five areas; namely, external audit and external auditors, financial information, internal audit and risk management. The Committee met six times during the 2003 year.

c) The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate. The external auditors attend every Audit Committee meeting and, from time to time, Committee members discuss specific matters with them in closed-door sessions, i.e. without the presence of management representatives. This practice is also to be followed with the internal auditors, who make periodic reports to the Committee. In addition, the Coordinator, Internal Audit Services has an individual meeting each year with both the Chairman of the Audit Committee and the Chairman of the Board.

14. The board of directors should implement a system which enables an individual director to engage an outside adviser at the expense of the corporation in appropriate circumstances. The engagement of the outside adviser should be subject to the approval of an appropriate committee of the board. Should a director wish to engage an outside consultant at the Company's expense, he (she) may do so with the prior approval of the Board or the Executive Committee or, in the case of an emergency, the Chairman of the Board.

INFORMATION FOR PARTNERS

MARKET INFORMATION

- Units listed on the Toronto Stock Exchange under the symbol GZM.UN.
- Unit prices for the last two years ended September 30:

	2003	2002
High	$20.86	$18.32
Low	$17.50	$16.28

- 113.9 million units outstanding with a market value of $2.3 billion as at September 30, 2003. At the same date, the market value of the 28.4 million units held by the limited Partners was $576.1 million. As at October 21, 2003 the number of units outstanding was 114.4 million.

UNIT TAX FEATURES

- Since January 1, 1999, the Partnership's units have been excluded from the definition of foreign property and have therefore been an eligible investment for RRSP purposes without any foreign property restrictions.
- The Income Tax Act of Canada requires the Partnership to allocate partners their share of the Limited Partnership's taxable income. Under the terms of Gaz Métro's Partnership Agreement, this allocation is made on a pro rata basis in accordance with distributions received by each partner.
- The taxable income allocated to each partner is primarily considered as business income. However, other types of income may be earned and allocated to partners. More information on that subject is available under the "Income Distributions" heading of the "Investor Relations" section of Gaz Métro's Internet site.
- A partner who was allocated a share of the Partnership's taxable income has to file both Quebec and federal income tax returns regardless of his/her province or country of residence because the taxable income allocated is business income earned in Quebec. The taxable income allocated to each partner will be shown on the T5013 (federal) and Relevé 15 (Quebec) slips.
- A partner who owns the Partnership's units in a non-taxable vehicle, such as a RRSP, will not receive the T5013 and Relevé 15 slips since the income earned in these vehicles is taxable only at the time of the withdrawing from the particular vehicle.
- The Partnership's taxable income differs from accounting income due to differences between the federal and Quebec tax legislation and generally accepted accounting principles. Since 1993, taxable income has, on average, exceeded distributions by 7.6% for federal purposes and 6.9% for Quebec purposes. Historically, the spreads have been as high as +26.8% (unfavourable spread for a taxable partner) and as low as -18.1% (favourable spread for a taxable partner). For the fiscal year ended September 30, 2003, taxable income exceeded distributions by 10.2% for federal and 9.7% for Quebec purposes.
- When you sell your units, the difference between the taxable income and the distributions received will increase your adjusted cost base ("ACB"), thereby decreasing your capital gain or increasing your capital loss, depending on the selling price. To calculate your ACB, you will have to add to your purchase cost the amounts of taxable income allocated to you every year and deduct the total distributions received.
- Under the terms of Gaz Métro's Partnership Agreement, a partner who is a non-resident of Canada can be required by the Partnership to sell his/her units to a person who is not a non-resident in accordance with the Income Tax Act of Canada.
- The income of a limited partner who does not participate actively in the Partnership's business is not self-employment income subject to Quebec Pension Plan contributions.

INCOME DISTRIBUTIONS

- Policy is to distribute virtually all of the income in each fiscal year.
- Quarterly distributions are paid on January 1st, April 1st, July 1st and October 1st to Partners of record at the close of business on December 15, March 15, June 15 and September 15 of each year.
- The Partnership approved a quarterly distribution of $0.34 per unit payable on January 1st, 2004.
- Partners may request that their income distributions be deposited directly into a Canadian bank account. This rapid, reliable and convenient service is offered by most banks and other financial institutions. To take advantage of this direct deposit service, contact CIBC Mellon at 1-800-387-0825.

TRANSFER AGENT

CIBC Mellon.

ANNUAL MEETING

The Partnership's annual meeting of Partners will be held at 2:00 p.m., Thursday, February 19, 2004, at Centre Mont-Royal, 2200, Mansfield Street, International Salon, Montréal, Quebec.

PUBLICATION OF RESULTS

Following approval by the Board of Directors, the quarterly results will be published around the following dates:

1st quarter : February 19, 2004	3rd quarter: August 4, 2004
2nd quarter: May 5, 2004	4th quarter: November 18, 2004

INVESTOR RELATIONS

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Quarterly reports, annual report and press releases are accessible through our Internet site: **www.gazmetro.com**

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

J. RICHARD BIRD [1]
Group Vice President,
Transportation North
Enbridge Inc.

JEAN-GUY DESJARDINS [3,4]
President and
Chief Executive Officer
Fiera Capital Inc.

NICOLLE FORGET [3,4,5]
Corporate Director

LOUIS P. GIGNAC [1,4,5]
President and
Chief Executive Officer
Cambior inc.

EMMANUEL HEDDE
Vice President
Projects and Business
Development Division
Gaz de France

PHILIPPE HOCHART [1,2]
Representative for
North America
Gaz de France

DIDIER HOLLEAUX
Operating Vice President,
Distribution Branch
EDF GDF Services

JACQUES LAURENT [4]
(Vice Chairman of the Board)
Partner, Borden Ladner Gervais, LLC

STEPHEN J.J. LETWIN [2]
Group Vice President,
Distribution and Services
Enbridge Inc.

GASTON LONGVAL [3]
Corporate Director

ROBERT PARIZEAU [1,2,3,4,5]
(Chairman of the Board)
Chairman of the Board
Aon Parizeau Inc.

RÉAL SUREAU [2,3,5]
Corporate Director and
President of Gestion
Sureau Limitée

ROBERT TESSIER [1]
President and Chief
Executive Officer
Gaz Métro inc.

THIERRY VANDAL [1]
President
Hydro-Québec Production
and Hydro-Québec
Pétrole et gaz

MANAGEMENT

ROBERT TESSIER
President and
Chief Executive Officer

RENÉ BÉDARD
Vice President
Legal Affairs and
Corporate Secretary

SOPHIE BROCHU
Vice President
Customer and Gas Supply

JACQUES CHARRON
Vice President
Operations

PIERRE DESPARS
Vice President
Finance and
Corporate Affairs

SERGE RÉGNIER
Vice President
Human Resources,
Quality and Internal
Communications

LUC SICOTTE
Vice President
Strategic Planning
and President of
Gaz Métropolitain Plus Inc.

1 Member of the Executive Committee
2 Member of the Audit Committee
3 Member of the Pension Fund Committee
4 Member of the Human Resources Committee
5 Member of the Corporate Governance Committee

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President

GAZ MÉTRO WANTS TO THANK FOR THEIR COLLABORATION
Joëlle Charpentier, Sainte-Justine Hospital, Pratt & Whitney Canada, Group LSR
Photographer: Yves Beaulieu

CE DOCUMENT EST DISPONIBLE EN FRANÇAIS.

GazMétro
life in blue